

FINANCIAL TIMES

Globalisation

Exposing the myths

Martin Wolf, Page 14

Middle East

Flames of mistrust fanned again

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More metal

Magnesium lures carmakers

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Epic struggle

Europe takes on Hollywood

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World Business Newspaper <http://www.FT.com>

TUESDAY MAY 6 1997

Europe's markets reach peaks after calming US news

Six European financial markets recorded all-time highs after last week's US economic data had reduced fears that the US Federal Reserve was about to raise interest rates. In Zurich, the Swiss Market Index closed above 6,000 for the first time and in Frankfurt the DAX index rose to post-bourse trading to a closing peak of 3,556.89. The other record-setters were Amsterdam, Brussels, Lisbon and Madrid. Page 17; World stocks, Page 38

Mostly made in the USA: The US Federal Trade Commission proposed lowering the domestic content required for a product bearing a "Made in USA" label. Currently, products with USA labels must be almost 100 per cent domestically made. Under the proposal a product could use the label if 75 per cent of manufacturing costs are incurred in the US. Page 6

Euroes jangle in Berlin: People in Berlin began exchanging D-marks at a rate of two per euro as part of a test-run promoted by the European Commission to persuade a sceptical German public of the virtues of a single European currency. For this week at least the euros have purchasing power in more than 50 shops and restaurants in the main retail centres of east and west Berlin. Page 16

Life, the London International Financial Futures and Options Exchange is clearing space on its trading floor for dealing in US Treasury bond futures, and the Chicago Board of Trade is gearing up for dealing in Germany's 10-year Bund futures and options as the two rival markets try a new era of co-operation. Page 17

Moscow plans bond issues: The City of Moscow is to launch Russia's first non-sovereign bond in the international capital markets later this month. The eurobond issue, totalling between \$300m and \$500m, will have a maturity of between three and five years. Page 17

DNA deals: Affinity, a US biotechnology company 84 per cent owned by Glaxo Wellcome of the UK, is challenging Oxford University and a professor, Ed Southern, over ownership of one of the most powerful medical innovations of recent years, the DNA chip, which analyses human genetic make-up using silicon chips containing bits of DNA. Page 17

UK Labour reaches out to Europe: The UK's new Labour government mounted a charm offensive with its European Union partners, declaring that Europe was an "opportunity not a threat" for Britain. Page 16

Japanese car's set to roll: Japan's car industry has slashed costs and, helped by the weaker yen, is poised to make fresh inroads into the world's car markets, according to a new study. Japan's share of the west European market has been about 11 per cent for several years but is forecast to climb to 14 per cent by the end of the decade. Page 6

Israeli indicted over sale to Iran: Millionaire Nahum Manber was indicted in Tel Aviv district court on charges of assisting an enemy nation and endangering Israeli security by selling the Iranian government \$16m worth of chemical components used to make mustard and nerve gas. He could face a sentence of 15 years to life in prison.

Moscow calls for 20% budget cuts: Russia wants to cut this year's budget by 20 per cent because of a drastic shortfall in taxes and other revenues. The ITAR-Tass news agency said plans were sent to parliament for spending cuts of \$18.8bn from the 1997 budget of \$22bn.

Air rages: Turkish Airlines fired two pilots who fought in the cockpit of a passenger jet as it flew at 11,000 feet with 240 people aboard. News reports said they argued over altitude data on the Bangkok-Istanbul flight.

Rwandans fly home from tense Zaire:



Rwandan refugees wait to board a United Nations jet in Kigali, Zaire, for return to the homeland they fled during the genocide of 1994. So far, 7,000 of 40,000 refugees have returned to Rwanda. US tries to avert bloodshed, Page 16

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STOCK MARKET INDICES		STERLING	
Tokyo Nikkei	closed	New York London	\$ 1.61975
New York Dow Jones	3,421.11 (+3.61)		
S&P Composite	814.39 (+1.39)	DOLLAR	
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Federal Funds	5 1/4	FF	5.0450
3-mo T-bill	5.103%	SP	1.4740
Long Bond	5 1/2	V	125.895
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Independent auditor finds no possibility of economic deposits in Indonesian mine Busang gold tests were falsified

By Clay Harris in London, Bernard Simon in Toronto and Manuela Saragosa in Jakarta

A Canadian company's claim to have found the world's biggest gold deposit in the rain-forest of Borneo was based on "tampering and falsification without precedent in the history of mining", according to an independent technical audit.

The damning report detailing tests on samples from the Busang site in Indonesia, discovered by Bre-X Minerals, sent shares in other small gold exploration companies lower on world stock markets - sharply so in Toronto.

Trading in Bre-X itself, once valued at C\$6.8bn (US\$4.8bn) was suspended indefinitely. The audit by Strathcona Mineral Services, a Canadian testing company brought in by Bre-X after doubts first surfaced, sent shockwaves from Jakarta to Calgary.

Indonesia, where President Suharto has an indirect interest in Bre-X's local partner, said it would take legal action if laws had been broken.

The government is also likely to tighten controls over the hundreds of mineral exploration companies operating throughout the country.

Glowing reports by Bre-X had made Busang a glittering prize fought over by leading international mining groups

Canadian mining group's shares suspended after damning report



The entrance to Bre-X's Busang gold project

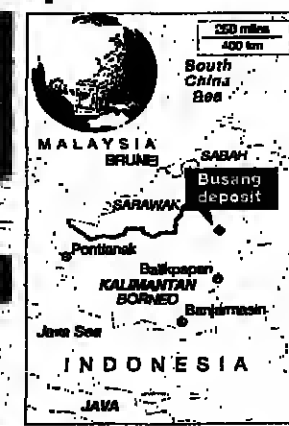
and Indonesian financial interests. In that scramble, Mr George Bush, former US president, and Mr Brian Mulroney, former Canadian prime minister, took part as lobbyists. Busang caught the imagination of fund managers, enthusiastic gold bugs and novice investors alike. The first sign that something might be amiss was the

mysterious death of Mr Michael de Guzman, a senior geologist who plunged from a helicopter on his way to an important meeting at the mine. Bre-X now faces a barrage of lawsuits from disappointed shareholders.

Strathcona's report, published late on Sunday, said it had found only trace elements of gold in samples and there

was "virtually no possibility of an economic gold deposit."

After an audit it described as "quite conclusive", it said: "The magnitude of the tampering with core samples that we believe has occurred, and resulting falsification of assay values, is of a scale and over a period of time and with a precision that, to our knowledge, is without precedent in the history of mining anywhere in the world."



Bre-X's claim to have found the world's biggest gold deposit was based on "tampering and falsification without precedent in the history of mining"

beat North American rivals Barrick Gold and Placer Dome to win the right to develop Busang and to take a 15 per cent share.

Yesterday Freeport withdrew from the project, saying that Strathcona's report confirmed its own tests. Nusbamba, the Indonesian partner, also withdrew.

The report shed little light on how the tampering was done, although it suggested it took place before samples reached the Indonesian assay laboratory used by Bre-X.

Bre-X has engaged accountants Price Waterhouse and Forensic Investigative Services to work with Strathcona to determine how "the data on which Bre-X relied in its prior public statements about Busang could have been generated."

Its last official estimate of Busang's resources was 71m ounces of gold, although Mr John Felderhof, head of exploration, publicly purported a figure of 200m ounces.

His role is likely to be closely scrutinised. Mr Felderhof, who has spent many years in Indonesia, was not in Calgary for a directors' meeting on Sunday. He participated from his home in the Cayman Islands.

Lex, Page 16
Fiasco casts cloud, page 22
World stocks, Page 28

HPI shares fall after Marzotto merger collapses

By Paul Betts in Milan

The financial markets yesterday punished the Italian HPI holding group and Mediobanca, the Milan merchant bank, for the collapse of the L8,000bn (\$4.6bn) merger between HPI and the Marzotto textiles and clothing company.

While HPI and Mediobanca shares plunged, Marzotto shares ended slightly higher.

Although financial analysts had originally welcomed the merger - which would have created one of Europe's biggest textiles and clothing groups - many supported Marzotto's decision to pull out in the face of growing differences of strategy and structure with HPI.

HPI ordinary shares lost 6.89 per cent to close at L866 in Milan, while Mediobanca shares fell 4.24 per cent to close at L10,175.

In contrast, Marzotto ordinary shares rose 0.36 per cent to end at L12,455. Financial analysts said this was partly because the family-controlled textile group had taken the initiative to call off the deal at the weekend.

However, Marzotto savings shares were off 3.5 per cent at L6,435.

In a damage limitation exercise, HPI said yesterday it would seek new industrial investment opportunities.

But the company, whose main shareholders form the cream of Italian private business - the so-called "salotto buono" or financial establishment - and include Fiat, Pirelli, Mediobanca and the Pesenti group, was clearly taken aback by Marzotto's sudden decision to pull out.

"Even last week they seemed to suspect nothing," said a businessman close to the deal.

After the failed attempt three years ago to merge Gemina with the former Ferruzzi-Montedison empire of the

Medical equipment maker buys clinics

By Daniel Green and Greg McIvor in Stockholm

Swedish healthcare company Gambro is to pay \$1.6bn for California's Vivra in a rare drugs industry move into the direct treatment of patients.

Vivra operates more than 262 kidney dialysis clinics in 28 states as well as selling management services to doctors and others co-ordinating kidney disease management.

Gambro makes components and pharmaceuticals for kidney dialysis machinery. It already owns a chain of dialysis clinics in the US, but the Vivra takeover more than doubles the number of people it is

Sweden's Gambro pays \$1.6bn for Vivra of US

treating to 26,000, making it the second biggest dialysis provider in the US after Germany's Fresenius.

The deal also consolidates the year-long drive by Incentive, the industrial holding company controlled by Sweden's Wallenberg empire and which owns Gambro, away from cyclical businesses into healthcare and technology.

However, the route that it has chosen is unusual. Most mergers and acquisitions in healthcare are of competitors rather than customers, partly because of the suspicion that

companies might dictate their customers' needs on commercial rather than medical grounds.

But Mr Mikael Liljus, Incentive's chief executive, said that the patients' well-being took precedence, and less than half Gambro's existing clinics used Gambro products.

He added that the decision to buy further into the service sector rather than products was based on market size: "[Dialysis] products are a \$8bn a year market, and dialysis services is a \$30bn a year market," he said.

Incentive will pay \$35.63 in cash for each Vivra share, a 38 per cent premium over the average closing price for the past 20 business days.

By early afternoon, Vivra shares were trading up 56% at \$36. Incentive shares were SKr2 lower at SKr515 (\$66) before they were suspended ahead of the announcement.

The combined company would have pro forma 1996 sales of \$2bn and profits before tax, interest, depreciation and amortisation of \$410m.

would dilute earnings until 1999 because of SKr9.5bn in goodwill charges.

Gambro is one of the world's largest kidney disease specialists along with Germany's Fresenius and Baxter of the US.

Last year Incentive paid SKr10.3bn for the 58 per cent of the company it did not already hold.

The company has become the cornerstone of Incentive's strategy and now accounts for more than half its sales. It has been strongly acquisitive in recent years, particularly in the US.

Company results, Page 29

Insider dealing probe at German software giant

By Andrew Fisher in Frankfurt

German prosecutors have launched an insider trading investigation at SAP, the fast-growing business software company whose shares have risen sharply in recent years.

The state prosecutor's office in Frankfurt said the probe could yield the most "far-reaching case" of insider trading uncovered since profiting from privileged information was made a criminal offence in Germany three years ago.

SAP was founded 25 years ago and is one of the world's biggest software companies. It went public in 1988 with a market capitalisation of DM900m (\$523m). At yesterday's share price, it is worth DM33bn.

The probe is directed at "persons unknown" rather than specific individuals, but extends to management board and supervisory board members and their families, totalling more than 100 individuals.

Mr Job Tillmann, spokesman for the state prosecutor's office, said although the volume of the suspected insider deals was not yet known, "it seems to be fairly extensive."

Several convictions have been handed down since insider trading was outlawed in 1994 but SAP is the most high-profile case to date. The maximum punishment is five years' imprisonment and heavy fines. So far, only fines have been levied, the largest being DM1m.

Mr Tillmann said the prosecutors were acting on information passed on by the federal supervisory office for securities trading - the stock exchange watchdog body. The office was alerted by evidence of share sales ahead of an announcement last October that SAP's profits for the first nine months of 1996 would be below expectations.

SAP's share price fell nearly 24 per cent to DM212 after the news that the company would probably not meet its forecast of 40 per cent earnings growth for the full year.

Since then, its share price has risen sharply as business recovered in the fourth quarter and SAP met its 1996 profits target.

Yesterday, SAP's share price fell 4 per cent, or DM13.95, in early dealings to DM214 on



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French left level with coalition, say polls

By David Buchan in Paris

A flurry of opinion polls yesterday confirmed the French left has drawn level with the centre-right coalition, in a challenge that looks likely to draw President Jacques Chirac into the campaign this week.

Of three polling institutes that released surveys yesterday, Sofres and Louis Harris put the RPR-UDF alliance and the combined Socialist and Communist forces at 38 each, while EVA credited the centre-right coalition with 40 per cent support, half a point ahead of the left.

Mr François Hollande, the Socialist spokesman, claimed "a real movement towards the left" but cautioned against "any hasty conclusion". He said that voting intentions recorded by the pollsters were "the only reliable indicator", describing as risky the projections of how many seats each side would

win in the two ballot rounds on May 26 and June 1.

These projections all show the centre-right retaining a majority, albeit sharply reduced, in the National Assembly. In addition, the polls published yesterday did not canvass opinion in France's overseas constituencies, where the right traditionally holds a majority.

Meanwhile, President Chirac was said to be planning to use the second anniversary tomorrow of his Élysée victory to intervene in the campaign by writing an article to be carried in much

of the French regional press. The prime minister, Mr Alain Juppé, said on radio he had "always thought the election would be tight", but appears to be privately urging Mr Chirac to give active support to his Gaullist-led coalition.

Yesterday saw the start of official campaigning after more than 6,300 people filed their candidacies for the 577 National Assembly seats on Sunday night.

Mr Jean Tiberi, Gaullist mayor of Paris, who has been the target of corruption allegations, has drawn no

fewer than 28 competitors. Mr Franck Borotra, industry minister, forecast yesterday that even if the Socialists won, they would find themselves forced to continue with the partial privatisation of France Télécom, which has now been delayed until after the election.

Speaking to the Anglo-American Press Association in Paris, the minister said the privatisation was necessary to give France Télécom funds and partners, while the government also needed the receipts from its sale. He confirmed the centre-right's

intention to put 300m-350m shares, or 30-35 per cent of the utility's capital, on the market.

But Mr Pierre Moscovici, Socialist spokesman on economic policy, told Reuters news agency that his party would halt the sale of both France Télécom and of the Thomson-CSF defence company. Final bids for Thomson-CSF are due in tomorrow night from the Alcatel and Lagardère groups, and the caretaker Juppé government had said it would make its choice next month. Editorial Comment, Page 15

Juppé takes a wary line on state jobs

David Buchan analyses continuing arguments over the 'excess fat' in the French civil service

On a radio talk show yesterday, a furious doctor called in to lambast Mr Alain Juppé for having last year complained in parliament of 'excess fat' in the French civil service.

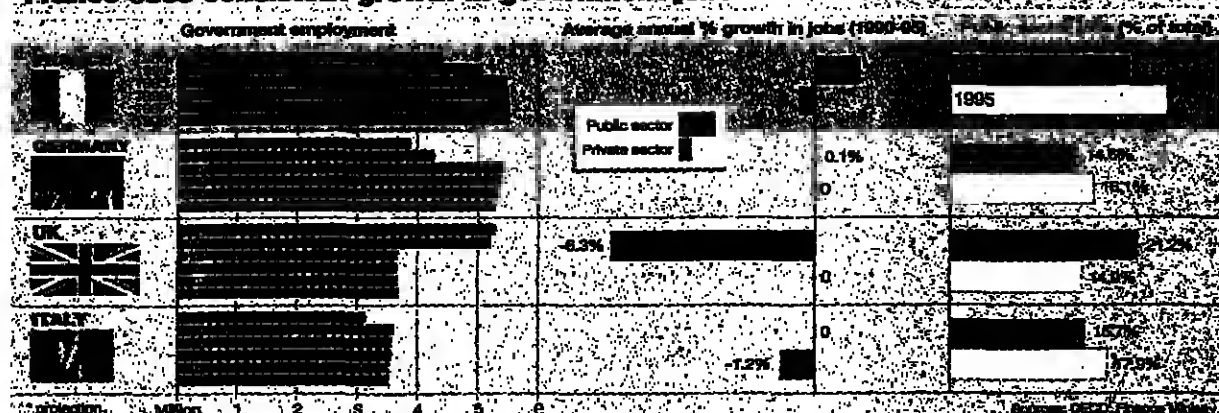
The French prime minister explained that he "mis-spoke himself" in the National Assembly, and went on in more diplomatic terms to press the case for the French state to take a slimming cure.

Last year Mr Juppé immediately regretted that he had been goaded by the Socialist opposition into blurring out his words about excess fat, all the more so because a year earlier he had sacked his free-market minded finance minister, Mr Alain Madelin, for saying roughly the same thing.

In fact, the prime minister and a large portion of his centre-right coalition believe privately that with a total civil service of 5.5m - which includes central and local government, hospitals and the professional military but excludes most of those working in state enterprises - has far more than it needs to provide essential public services for its citizenry.

But it does not do in France to say so out loud. The only job reduction pledge that the centre-right thought wise to put in its manifesto was a promise to

France sees consistent growth in government jobs



slim the government down to 15 ministers. The Socialist manifesto attacks the government for "reducing public jobs". This was a reference to the government's action this year in cutting the central civil service by 5,600. If given another five year mandate, the centre-right has suggested it would continue job cuts at the same modest rhythm.

Mr Franck Borotra, the industry minister, said yesterday that his aim would be to go on cutting about 100 jobs a year out of his 2,500-strong ministry, one of the smallest in Paris.

In theory, the pace could easily be accelerated. While sacking civil servants in

mid-career would infringe their statutory job security, the fact that nearly 60,000 French civil servants reach retirement age each year provides an opportunity not to replace a far larger portion of them.

But this would only become politically acceptable if the man-in-the-street were to start to take exception to the extra benefits that civil servants enjoy.

Aside from a job security absent elsewhere in an economy with 12.8 per cent unemployment, French civil servants have outperformed the private sector on pay recently.

Having done relatively worse than the private sector in 1984-90, the public sector saw its purchasing power

the level of pay rises over inflation - rise by 7.2 per cent in 1990-95, compared with a gain of just over 1 per cent for private employees over the same period.

In an attempt to economise on the FF650bn (\$95bn) it spends on personnel each year, the government decreed a pay "freeze" last year.

This meant no general rate increase for civil servants, who nonetheless, because of various automatic pay rises awarded for seniority and age, had their total pay increased by over 2 per cent. This spring the civil service unions demanded 4.4 per cent over 1997-98, but the government has stuck to its

offer of 2.8 per cent. Civil servants earn less than private employees at the top, though not at the bottom, of their respective pay scales.

But the public sector now has far better pension arrangements than the private sector which, due to a 1993 reform, is progressively having to pay in more and get less out of its pension schemes.

The reform, stretched over 1994-2008, will generally require people to contribute for 40 years before drawing a pension calculated at the average of their highest paid 25 years, instead of 10 years as before 1994. By contrast, civil servants

Airlines launch case against aid for Air France

By Michael Skapinker, Aerospace Correspondent

Six European airlines, headed by British Airways, today launch their court challenge to Air France's right to receive FF20bn (\$3.43bn) of state aid.

The legal action will be heard by the European Court of First Instance in Luxembourg. The subsidy to the loss-making French carrier was approved by the European Commission in 1994.

The airlines supporting BA's legal challenge are TAT, its French subsidiary, Scandinavian Airlines System, KLM of the Netherlands, Air UK and Eurowings of France. The airlines' case is being supported by the governments of the UK, Denmark, Sweden and Norway.

The Commission last month gave Air France permission to receive the final FF1bn of the state aid package. The Commission last year approved the third and last tranche of aid to the airline of FF1bn, but froze the FF1bn pending a review of

Air France's progress towards restructuring.

Permitting the final FF1bn to be paid, the Commission said that Air France's restructuring programme appeared to be on track. Mr Christian Blanc, Air France chairman, has said he expects the airline to show a net profit in the year to March 1998.

Another airline legal battle will resume tomorrow when BA asks the French courts to support its complaints over security conditions for flights operated by Air Algérie from Charles de Gaulle airport in Paris.

The Algerian carrier recently restarted flights from the airport after a two-year ban. BA has objected because Air Algérie's check-in counter at Charles de Gaulle is next to its own. The UK carrier says security for Air Algérie is insufficient to ensure the security of other airlines' passengers.

French authorities have rejected BA's request to be allowed to switch flights from Charles de Gaulle to Orly, Paris's other airport.

Swedish corporations may take HQs abroad

By Greg McIvor in Stockholm

Several big Swedish groups are considering moving their headquarters abroad in response to high taxes and what they call poor business conditions.

The companies, which include Ericsson, the telecommunications group, and Aga, the industrial gas supplier, said heavy tax burdens and social insurance levies were forcing them to consider relocating abroad.

Mr Lars Ramqvist, Ericsson chief executive, said a rising proportion of the company's highly trained staff was seeking to leave Sweden for tax reasons.

"If our people in research and development would

rather relocate to the US or the UK what will we do then?" he said, adding that it was virtually impossible to attract foreign staff to Sweden.

Ericsson has half of its workers in Sweden but only around 6 per cent of its sales there.

Mr Ramqvist said Ericsson's board had commissioned a study of the pros and cons of a possible move from Ericsson's Stockholm headquarters. Aga, which has up to 90 per cent of its sales outside Sweden, has done likewise.

The growing disenchantment in Swedish industry over the policies of the ruling Social Democrats follows a decision earlier this year to start shutting down

the country's nuclear power industry, a move viewed by many executives as anti-business.

Swedish corporation tax, at 28 per cent, is not high by European standards. But the top income tax rate is 55 per cent and the total tax burden is one of the highest in the OECD, in part due to social insurance taxes which require employers to pay 31 per cent of an employee's salary to the authorities.

Sweden is one of few EU countries without special tax rules for foreigners.

However, Mr Thomas Östros, taxation minister, said the government was considering adopting tax breaks for foreign executives on limited-duration postings in Sweden.

EUROPEAN NEWS DIGEST

Exodus tests Albania mission

A renewed exodus of Albanians across the Adriatic to Italy has highlighted the weakness of the Italian-led international military mission operating in the troubled Balkan state since mid-April. Over the weekend an ageing cargo vessel overloaded with 1,223 Albanians was allowed to enter the port of Bari after refusing to turn back to Albanian waters. Hundreds more Albanians were reported to be hoping to board other vessels off the northern Albanian coast in trips organised by the local mafia.

One of the aims of the eight-nation military mission was to restore stability and so head off a repetition of the exodus in March prompted by a breakdown of law and order. The Albanian mafia is still operating in parts of the country with impunity, brazenly trafficking in illegal immigrants. Robert Graham, Rome

Italian confidence vote

Italy's centre-left government yesterday imposed a vote of confidence to avoid its L15,500bn (\$8bn) mini-budget being bogged down under a mass of amendments tabled by the opposition. It was the 22nd occasion on which the government headed by premier Romano Prodi had resorted to this instrument during almost 12 months in office. The confidence vote has proved a more efficient means of pushing legislation through parliament than the traditional use of decrees which have immediate effect but require subsequent parliamentary approval.

The financial package was unveiled just before Easter to correct an overshoot in the 1997 budget deficit. Even so the additional measures are unlikely to bring the deficit down to 3 per cent of GDP as required by the Maastricht treaty. Robert Graham, Rome

Primakov in Nato talks

Mr Yevgeny Primakov, Russia's foreign minister, will today try to reach an agreement redefining Europe's security arrangements in a meeting in Luxembourg with Mr Javier Solana, Nato secretary general. Mr Primakov, who has strongly opposed Nato's plans to embrace new members in central Europe, said he wanted to resolve all outstanding issues between the two sides, which will enable President Boris Yeltsin to sign a security agreement with Nato leaders in Paris later this month.

"I want this meeting to be the last one and to enable us to sign a [Russia-Nato security] agreement on May 27," Mr Primakov said. Last week, Mrs Madeleine Albright, US secretary of state, said the two sides had narrowed their differences during talks in Moscow, but "we still have some way to go". John Thornhill, Moscow

UBS man flees to US

The Swiss security guard who lost his job after discovering the Union Bank of Switzerland had broken a government ban on shredding historical documents has fled to the US. Mr Christoph Meili, 29, said he and his family had received death threats.

Publicity surrounding the UBS document shredding incident in January caused both UBS and Switzerland severe embarrassment when the country was trying to reassure the world Jewish community it was committed to a thorough historical investigation of its war-time relations with Nazi Germany. William Hall, Zurich

Libyan held in Malta

A Libyan refugee was arrested by Maltese police over the weekend after an extradition demand by Libya where the Libyans claim, he is wanted to serve a sentence for drug trafficking offences. Mr Najib Harari was detained at Malta's international airport hours before boarding a flight to an undisclosed country on a visa provided by the United Nations High Commissioner for Refugees. The Libyans claim Mr Harari formed part of a drug trafficking group. Godfrey Grima, Valletta

ECONOMIC WATCH

Germany's output rises 0.5%

Germany's industrial production rose by a seasonally adjusted 0.5 per cent in March, down from the 2 per cent adjusted rise recorded in February, according to official figures published yesterday. Seen in the preferred two-month period industrial production in February and March rose 1.5 per cent over that in December and January. The figures showed near-flat performance in west Germany against more robust activity in the east of the country. Production in the west rose by a seasonally adjusted 0.1 per cent in March compared with a 6.8 per cent rise in the east. Year-on-year, pan-German output rose 4.7 per cent, according to calculations based on the official data.

The federal economics ministry said the biggest rise in a sectoral basis came in construction, which recorded a 1.5 per cent rise in March. The ministry noted, however, that this still did not make up the shortfall caused by a slump in orders in the construction industry over the winter which had been a significant contributor to a marked rise in unemployment earlier this year. Output of investment goods dipped 2.7 per cent and mining 2.5 per cent, seasonally adjusted. Frederick Stedman, Berlin

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Score flatters dull affair

AMEX..... 1
HOGG ROB'..... 2

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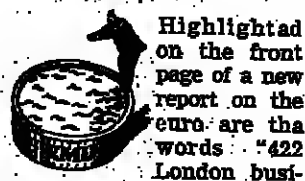
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Emu could hit market jobs and profits

Bankers and traders are beginning to worry. Richard Lapper reports



Preparing for Emu

Highlighted on the front page of a new report on the euro are the words "422 London business days remaining", neatly summing up the greater urgency with which the prospect of European monetary union is being seen by investment bankers. The report, published on Friday by the London Investment Banking Association (Liba), surveys in detail the potential impact of Emu on the capital markets in which investment banks operate. But as those business days pass, another issue - the effect of Emu on the business of investment banks and the well-being of the people who work in them - will start to loom larger.

Already some bankers and traders are beginning to worry that the rationalisation of European bond and currency markets will sweep many of their jobs away. Trading and sales of German, Italian and other European currencies and bonds is - alongside mergers, acquisitions and dealings in equities, as well as in other currencies and fixed income markets - a significant line of business for investment banks and securities brokers, especially for some smaller firms. Last year, for example, trading in Italian bonds and swaps was particularly profitable, following the sharp fall in Italian interest rates. Yet these kinds of trading opportunities will diminish after adoption of a single currency.

Fear of job losses is being voiced in the City of London, where much of this business is concentrated. "At the back of every trader's mind is a secret hope that European monetary union is going to fail," said one US bank economist. "In the next few years Europe's financial markets will come to resemble the coal and steel industries in the 1970s and 1980s. Your average Mark-Paris trader [industry jargon for the French franc] end the French franc] is going to become an endangered species," he added. But the impact could be even greater in smaller regional centres. Mr Arun Aggarwal, a partner with Price Waterhouse, the accountants and consultancy

group, predicts some smaller European banks could lose as much as 50 per cent of their foreign exchange business and up to 60 per cent of revenues from bond arbitrage trading (where traders spot deviations from expected patterns of pricing) as a result of the single currency. "The euro is all about eliminating financial inefficiencies in the market," he said. Mr Terry Eccles, a managing director with J.P. Morgan, the US bank, says some firms in areas such as Scandinavia or southern Europe, which obtain much of their income by dealing in local currencies or bonds on behalf of domestic fund managers, are particularly vulnerable to competition from bigger international rivals as national currencies disappear.

"The firms which have a strong position in their own market but nowhere else will find it difficult," said Mr Eccles, who specialises in mergers and acquisitions transactions in the financial sector. "At present you can make a good living if you are number one or number two in a local market. That is going to come to an end," added Mr Peter Milne, banking analyst at IBCA, the credit rating agency. At the same time, however, many firms - especially those whose business is already widely diversified - will compensate for the

contraction of "intra-European" business by expanding elsewhere. A survey of 900 banks and brokers published earlier this year by the International Securities Market Association (Isma), a trade body, says that while some firms contemplate job losses of between 15 and 25 per cent, others, particularly investment banks, felt they would not have to make any members of their staff redundant. One typical firm with 350 staff said it expected to lose up to a quarter of its bond brokers but that its emerging market team would rise



Phoning around for vacancies? Dealers are likely to bear the brunt of job losses if Emu goes ahead

'At the back of every trader's mind is a secret hope that European monetary union is going to fail'

Lawyers set to gain from complex battles over bonds

By Wolfgang Münchau, Economics Correspondent

European economic and monetary union could give rise to debilitating legal battles between bond issuers, bond holders and governments, according to experts, unless there is further legislation governing the transition to the planned single currency, the euro. Lawyers and financial market practitioners in the City of London are expressing concern about a whole raft of unresolved issues in connection with the redenomination of securities - the change in their nominal value to the euro. This uncertainty arises

because securities can be denominated in either euros or in national currencies during the transitional period between 1999 and 2002. Pressure is growing on the European Union and national governments to establish clear legal guidelines, or else risk a flood of litigation. Government bonds of countries participating in Emu will immediately be redenominated to euros. This will be done to help the euro-debt markets get off the ground quickly. This changeover will be governed by statute in most cases, but this will not apply to private sector debt, nor

will it apply to countries that do not participate in Emu. The biggest legal difference is between the UK - still seen as unlikely to be in the first wave of Emu - and Germany. In Germany, bond contracts are subject to statutory provisions. In the UK the legal terms are negotiable. In the UK, therefore, a majority of bondholders can force through a redenomination. In Germany, such a

decision would require unanimity, which is virtually impossible. Mr Cliff Dammers, director general of the International Primary Market Association, said one of the classic cases would be a UK government D-Mark [bond] issue that provided for meetings at which redenomination could be agreed by bondholders. German investors in such an issue would be protected by German law from redenomination. "That is a classic case where you could have

convert and then round to the nearest large number. For example, simple redenomination of a DM100 bond could result in a £53.23 bond, but bondholders could decide that this is an awkward number and vote instead to convert to £50. Lawyers warn that there may be other unresolved areas where difficulties might arise, especially if bondholders vote not only to redenominate the bonds but also to renominialise - first

legal conflict," he said. Investors would get paid cash to cover the difference. But this could also give rise to a host of legal issues. One lawyer expects a floodgate of litigation to open up in a case such as this because renominialisation would change the mathematical relationship between securities and derivatives. There may also be tax issues, if national tax authorities decide that the cash payment is liable to tax. Disgruntled investors could argue that renominialisation puts them at a disadvantage. The practitioners' view is therefore simple: leave bonds alone, at least during the transitional period. But

all the problems will resurface once the transitional period ends in 2002, when national notes and coins cease to be legal tender. In a detailed report, the London Investment Banking Association (Liba) made a series of recommendations, starting with one not to redenominate existing debt securities, if at all possible, or otherwise to give sufficient thought to the legal implications. Liba warns in particular about legal uncertainty in respect of securities issued before the Maastricht treaty on economic and monetary union in 1991. But Liba also suggests that among market interme-

diaries transactions such as coupon payments should be settled in euros, rather than national denominations. It also suggests that if bond issuers and bond holders decide to redenominate, they should opt for a minimum denomination of £1,000 to ensure maximum liquidity. With several of these legal issues likely to remain unresolved, financial lawyers will almost inevitably count among the winners of Emu. "Liba progress report on transition to the euro capital markets. Published by London Investment Banking Association, 6 Frederick's Place, London EC2R 8BT. Tel 0171 796 3606. Fax 0171 796 4345

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There are some weapons so abhorrent that their use simply cannot be permitted.

The horrific effects of poison gas in World War I saw this weapon banned in 1925.

The insidious blinding laser joined this list in 1996.

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That weapon is the landmine.

Anti-personnel landmines are frequently laid in a haphazard fashion and continue to operate long after a conflict has ended.

Which means the victims tend not to be soldiers with ample medical support, but poor men, women and children playing no part in the conflict.

Today, somewhere in the world the life of another young child will be cruelly shattered by one of these weapons.

Just one of seventy civilians who fall victim to the landmine every single day.

That is why the International



Committee of the Red Cross is leading the call for a total ban on the production, export, use and stockpiling of anti-personnel landmines.

The weapon that mutilated this defenceless child cannot be

allowed to continue its carnage.

Before another century starts, landmines must be stopped.



INTERNATIONAL COMMITTEE OF THE RED CROSS (ICRC)
LANDMINES MUST BE STOPPED

Officials hope Clinton state visit will smooth out friction over Mexican drug cartels

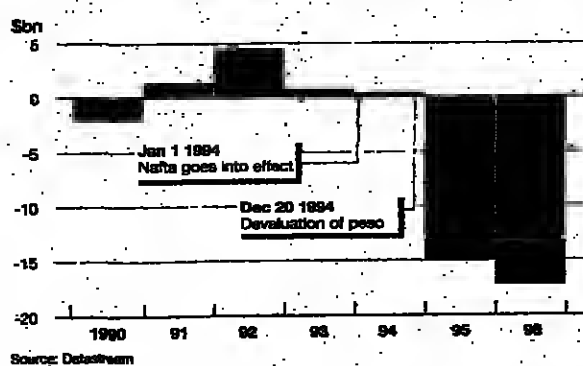
US and Mexico seek common ground

By Leslie Crawford
in Mexico City

US and Mexican cabinet ministers, meeting in Mexico City in advance of President Bill Clinton's arrival yesterday, sought to find common ground on trade, drug interdiction and migration issues which lie at the heart of the complex and often fractious relationship between the two countries.

The binational commission, which brings together 16 working groups, is the most extensive consultation mechanism between the US and any foreign government. On the occasion of Mr Clinton's first state visit to Mexico, both sides appeared keen to emphasise the strength of their partnership in the North American Free Trade Agreement (Nafta).

US visible trade balance with Mexico



over and above the issues which divide them.

"Nafta really proved its mettle during [Mexico's financial] crisis," Mr Robert Rubin, US Treasury secretary, said in Washington before departing for Mexico.

The emergency \$12.5bn Treasury loan which stayed off a Mexican default in early 1995 had been fully repaid, Mr Rubin said, and the American taxpayer had made "a substantial profit on that loan".

Mexico has become the third largest trading partner of the US, after Canada and Japan, since it joined Nafta in 1994. Bilateral trade has grown by 65 per cent to \$140bn in 1996.

Although the peso devaluation in December 1994 turned Mexico's trade deficit with the US into a \$5bn surplus last year, the Clinton administration, which wants to negotiate more free trade agreements in Latin America, points out that US exports to Mexico are at record levels.

"A stable, prosperous Mexico is very important to us economically and important to us in terms of our national security," Mr Rubin said.

The greatest threat to Mexico's stability, according to US officials, comes from

the entrenchment of Mexican drug cartels, which now control more than 60 per cent of the cocaine entering the US, and which have succeeded in corrupting large swathes of Mexican officialdom.

"There is no question that Mexico's democratic institutions are under attack from within," says General Barry McCaffrey, director of the White House's office for drug control policy.

Mexican officials hope this week's bilateral discussions will help rebuild the trust that was shattered after Mexico's top anti-narcotics officer was arrested in February on charges of being in the pay of drug traffickers.

The arrest prompted Mr Thomas Constantine, director of the US Drug Enforcement Agency, to tell US

Congressmen: "There is not one single law enforcement institution in Mexico with whom the DEA has an entirely trusting relationship."

US officials say they expect only "incremental steps" on drug-interdiction co-operation to come out of Mr Clinton's discussions with President Ernesto Zedillo.

The presidents are expected to sign an accord to strengthen the detection of money laundering.

Mexico will also speed up the extradition of drug criminals who are wanted for trial in the US. But a request by the Drug Enforcement Agency for its agents to be allowed to carry guns in Mexico has been firmly ruled out by President Zedillo. Observer, Page 15

Punters the losers in racetrack wrangle

Leslie Crawford reports on the politically loaded dispute which led to closure of Mexico City's Hipódromo

Mexico's aristocracy is passionate about horses. Invitations to haciendas, where thoroughbreds can be admired and government contracts broached discreetly, have long been a favourite way to mix pleasure and business. But for many months now, the country's elite has been denied access to one of its favourite playgrounds: the Hipódromo de las Américas, an exclusive racetrack in Mexico City, which was abruptly closed down by government troops in August last year.

Don Justo Fernández, who held the racetrack concession, sported impeccable credentials. He is married to the niece of a former president, owns several businesses in his home state, Veracruz, breeds racehorses for a hobby, and is a member of the Mexican Council of Businessmen - the club of Mexico's 38 richest men.

Don Justo was also a family friend of Mr Carlos Salinas, Mexico's former president, and both Carlos and his brother Raúl, keen horsemen, were frequent guests at Don Justo's hacienda in Veracruz. So, no one was surprised when, in 1992, the Salinas government renewed his concession title to the Hipódromo for another 25 years.

The snakes and ladders of Mexican politics, however, have ensured many a businessman before Don Justo. Mexico's financial crisis in 1995 sent Mr Carlos Salinas into exile and sent Mr Raúl Salinas into jail on charges of murder and graft.

It also ushered in a new cabal of politicians hungry

to consolidate their financial clout.

The reason given for the withdrawal of the racetrack concession was the oldest in the book: Don Justo had apparently neglected to pay his taxes - never a problem in Mexico with the right political connections, but a capital sin if one should fall out of favour with those in power.

At the Hipódromo, where clouds of dust swirl around the empty grandstands and the fences of empty stables creak with neglect, few mourned Don Justo's

demise. "He was a poor administrator," says Mr Cesar Garcia Ortega, president of the Racehorse Owners' Association.

"He did nothing to promote the racetrack; attendance and prize money declined; the Hipódromo was no longer the great show it had once been."

In early 1996, Mr Garcia Ortega led a rebellion of owners and jockeys. Don Justo had not raised prize money in four years, and with the devaluation of the peso, the owners could barely cover the upkeep of

their thoroughbreds.

"We threatened to boycott the races, and the relationship became very tense. Don Justo still wanted to dictate the terms," Mr Garcia Ortega says.

"We were very relieved when the government finally took action and withdrew Don Justo's concession. What we had not gambled on was that the racetrack would remain closed for a year."

Don Justo's son, who is also named Justo, blames the Hipódromo's declining fortunes on competition

from out-of-state betting shops, which were not required to pay Mexico City's hefty local taxes and so could offer better odds.

"When these bookmakers opened for business, betting at the Hipódromo fell by one-third," he says. "People still came to enjoy the races, but they were placing their bets over their cellphones. Then the financial crisis struck Mexico, and our takings fell by a further 40 per cent."

Don Justo Jr says the racetrack struck a gentlemen's agreement with Mexico's Interior Ministry, which regulates the gambling industry, whereby part of the taxes levied on bets would be channelled into reinvigorating the races with better prize money.

The agreement was signed on August 23. The following day, however, the shock troops were sent in.

At the Interior Ministry, Mr Juan Burgos, the director, denies that he ever agreed to any tax breaks.

The Interior Ministry official who signed the agreement had no authority to rescind the government's fiscal rights, he says.

Mr Burgos plans to auction the racetrack concession later this month. He says eight groups have applied to bid for the Hipódromo, including Ladbroke of the UK, Greenwood Racing, which owns three racetracks in the US, Sisal Sports of Italy and Equus Gaming of Puerto Rico.



Jockeys on horseback and racetrack workers blocking Mexico City's Periferico thoroughfare last year in protest at the racetrack closure

Shake-up in Chilean party

By Imogen Mark in Santiago

Elections in Chile's ruling Christian Democrat party on Sunday have unseated its leadership. The effect will be to modify the party's unquestioning support for the country's President Eduardo Frei, and slow down decision-making in government and Congress.

The dissidents, led by Mr Enrique Krauss, interior minister in the previous government and a veteran party leader, won narrowly, taking 50.6 per cent of the votes compared with the 49.4 per cent for Mr Krauss's opponent as party president in the second round of the poll.

More than half the 110,000 members voted. In the first round, on April 6, Mr Krauss lost by only a handful of votes, and there were mutual accusations of fraud and manipulation.

The rival candidate, Mr Gutemberg Martínez, was backed by most of the party establishment, including

Chile's former president, Mr Patricio Aylwin, Mr Alejandro Foxley, the outgoing party president and former finance minister, and most congressmen. After the first round Mr Martínez wanted to negotiate a consensus executive but Mr Krauss insisted on the second round.

Mr Foxley believes the election has been at best a return to old-style Chilean, and Latin American, politics. He said: "The traditional way of doing politics [focuses] power struggles, destructive competition, personal rivalries."

The outcome could lead to a split in the party and in the ruling centre-left coalition, the Concertación for Democracy.

Mr Foxley sees the mood in his own party as a serious threat to the consensus-building of the late 1980s, which united Christian Democrats with the democratic left in a coalition which has brought Chile stability since 1990.

Bolivia's pensioners see benefit of sell-offs

Amphibians will be standing by at football stadiums in Bolivia's cities today as thousands of elderly people flock to collect \$250 in cash - the first payment of the "Bonosol" or solidarity bond, a universal old-age pension unprecedented in Latin America.

In the next few months, more than 300,000 people of 65 or over are expected to claim the benefit. Two thirds already have the necessary documentation; thousands more are queuing outside police stations to register for identity cards. For many, who live largely outside the formal economy, it is the first time they have bothered to do so.

The Bonosol, to be paid annually, is equivalent to about a third of average per capita income. "It's an income transfer that will make a tremendous difference, especially in the rural areas," says President Gonzalo Sánchez de Lozada.

It is a uniquely Bolivian formula for redistributing proceeds of "capitalisation" - the country's retained share in former state-owned companies now transferred to private sector "strategic partners".

In the past two years, management control of five monopolies - in electricity generation, rail and air transport, telecoms and hydrocarbons - has passed to new, for-

eign operators along with 50 per cent of each company's equity. Although all were offered through a public bidding process, Bolivia's novel capitalisation mechanism ensures that, instead of going into the treasury coffers, the amount bid is injected into the company as fresh capital.

The state gets no cash from the transaction. But, as today's Bonosol payments finally prove to an often-sceptical public, the Bolivian people do. The 50 per cent shareholding in the capitalised companies corresponding to the state has been transferred to two private pension funds or AFPs, selected through international tender.

They will manage the \$1.7bn "collective capitalisation fund", which pays the Bonosol, while simultaneously setting up an individual pension fund system along the lines of those operating in Chile and Peru.

"Futuro de Bolivia" is dominated by the Spanish Argentinian banking and financial group, Invesco. The London and Atlantic-based fund manager, has a 10 per cent stake; several minority partners include a local insurance group and a consortium of five non-governmental organisations with many years experience in delivering micro-credits to rural smallholders,

miners and artisans.

Spain's Banco Bilbao Vizcaya is the prime mover behind "Previsión BBV". Its partner is Bolivia's BNC Industrial (BISA) a leading domestic financial services group.

Bolivian territory has been divided between the two Futuro de Bolivia, winner at auction with the lowest offer on commissions, chose to operate in the Andean highlands, leaving Previsión BBV to

The treasury gets no cash from sales of state enterprises, but people do

cover the eastern lowlands.

They will compete for clients in the largest cities: La Paz and its satellite El Alto, Cochabamba and Santa Cruz. In rural areas, elderly peasants will collect their Bonosol from mobile AFP-operated vans.

"It's been a race to get everything ready in time," says Mr Marcelo Zabala, general manager of Futuro de Bolivia. He spearheaded the initiative to set up the AFP. Over the past two years, he has closely studied Chilean and Peruvian experience in creating a

private pension system from nothing.

Although Futuro de Bolivia has contracted technical support from Profuturo, a leading Peruvian AFP, to help set up operating systems, the Bolivian pension fund scheme differs substantially from those in other Latin American countries.

First, the AFPs start with a very substantial fund to administer: \$1.7bn is equivalent to more than a quarter of Bolivia's gross domestic product.

Second, the old and inefficient social security system - backed by three dozen co-called "complementary funds" - has been liquidated and contributors assigned to one or other of the new AFPs.

"It was a bold and courageous decision by President Sánchez de Lozada," said Ms Martha Kelly of Ernst & Young, advisers on the scheme's promotion. "A new system can't work properly with the old one existing alongside."

Third, with only two AFPs sharing the market, commissions are exceptionally low.

Expenditure on the sort of cut-throat publicity campaigns seen in other countries will be absent.

For President Sánchez de Lozada, the establishing of the AFPs is an essential complement to divesti-

ture of the state-owned companies.

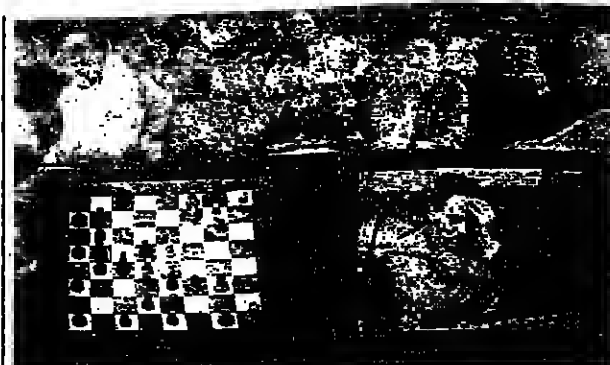
"Capitalisation means an important injection of foreign investment," he said in a recent interview. "But pension reform means capital formation, stock and bond markets almost overnight. What Bolivia needs is local savings to complement foreign investment."

This first year's Bonosol - expected to cost \$70m - will largely be covered by dividends already produced by the capitalised companies. The government will cover a shortfall of \$25m with a bridging loan.

Next year, however, the AFPs expect to start listing and trading shares in the (now) 10 limited companies created from the old state-owned five. "We don't yet know which shares or how many, but we'll have to sell," says Mr Zabala. This should kick-start activity in the sleepy Bolivian stock market.

Bolivia's political opposition is threatening modifications to the Bonosol in the wake of the anticipated defeat of Mr Sánchez de Lozada's MNR party in elections scheduled for June 1. But politicians of all persuasions and the business community seem to support the AFP system.

Sally Bowen



The audience looks on as Kasparov contemplates his next move against Deep Blue in Sunday's match

Chess champ 'Deep Blue' over defeat

By Paul Taylor

Chalk one up for the techies. Deep Blue, International Business Machine's super computer powered by silicon but programmed to play like a human, defeated a glum Garry Kasparov, the world chess champion, to level the score at one game each in their six-game re-match under way in New York.

The victory by the upgraded 1.4-ton machine was hailed by Mr Joel Benjamin, Deep Blue's grandmaster team consultant. "This was real chess, not computer chess," he told the audience. "This was a game any human grandmaster would have been proud to play."

Usually computers excel at complicated tactical struggles in which their massive calculating abilities give them an edge. However, chess experts said that in this match Deep Blue demonstrated it "understood" positional concepts too.

Deep Blue's victory came after 45 moves and three hours and 42 minutes of play and was only the second time in history that a computer programme had defeated a reigning world chess champion.

The first time was in February last year in Philadelphia when Deep Blue's predecessor won the first game and drew two others before Mr Kasparov eventually won the six-game contest.

In the aftermath of the Philadelphia match, Deep Blue's six-member team of computer scientists and chess experts returned to their laboratories to plot revenge and build a bigger, better and smarter machine. "I think the major difference is that in the last match we brought a lot of technology and this time we have brought a lot of human input," said Mr Hsu Feng-Hsiung, one of the team.

The main "human input" was the addition of Mr Benjamin to the team as a full time adviser. He has since helped infuse the system with much more chess knowledge and a greater appreciation for strategy.

Another important change is that Deep Blue's software has been written in such a way that it can be "tweaked" between games to improve its performance. One factor said to be behind Mr Kasparov's 1996 win was that he learned to recognise and exploit the computer's weaknesses.

'A game any human grandmaster would have been proud to play'

In addition, Deep Blue has been given more memory and twice the calculating speed of its predecessor, thanks mainly to its super-fast 32-node IBM RS/6000 SP parallel processor and specialised microchips for chess. All this power enables Deep Blue to analyse 200m positions a second compared with Mr Kasparov's three. Despite this, Deep Blue is devoid of visceral belief and gut instinct.

Some commentators have described the match in terms of a struggle between humanity and technology. However, Mr C J Tan, Deep Blue's team leader, eschews the notion that the machine is a threat to the collective human psyche. He said the match was about "how man and machine will work together to solve problems in the future".

The third game was scheduled for last night and the match ends on May 11. If Mr Kasparov does triumph again he will win \$700,000. He will receive \$400,000 if he loses.

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Prime minister puts faith in 'politburo' to exercise tight control over departmental empires

Byzantine look to prime minister's command structure

By Robert Peston and George Parker

The somewhat Byzantine nature of Mr Tony Blair's government started to become apparent yesterday as details of the command structure were revealed.

There is a cabinet, a cabinet-in-waiting and an unofficial politburo, which will probably take most of the important decisions. Then there are two departmental empires, that of Mr Gordon Brown at the Treasury - who has tentacles into social security and employment - and Mr John Prescott's super-ministry, combining environment, transport and regional policy.

It may involve costly duplication and may look unwieldy, but Mr Blair and his close allies are pinning their faith on the ability of the overarching politburo to exercise tight control.

The prime minister believes the chains of command that worked in opposition are appropriate for the government. So a small, tightly knit group - consisting of Mr Blair, Mr Gordon Brown, the chancellor (finance minister), Mr Peter Mandelson, who will help guide strategy, and Mr Alastair Campbell, the prime minister's press secretary - will continue to meet regularly to set overall strategy and co-ordinate presentation of policy.

Individual departments will have to clear every announcement through Mr Campbell at Downing Street. Mr Campbell reinforced the point yesterday by writing to the information heads at all government departments saying that all interview requests have to be cleared through his office.

"We can't afford to make any mistakes, especially at

the start," said a Downing Street official. "The first time any department announces anything which is different from our manifesto the press will come down on us like a ton of bricks - and rightly so."

Blair loyalists will also try to get a grip on the civil service machine, with appointments involving three officials who have worked tirelessly for Mr Blair in opposition. These are:

- Mr David Milliband, who will be the senior full-time member of a new policy unit;
- Ms Sally Morgan, who will be political secretary with the job of ensuring the national party is a support to Mr Blair rather than setting itself up as a *de facto* opposition;
- Mr Jonathan Powell, whose title is chief of staff and who will replace Mr Alex Allan as the prime minister's principal private secretary when Mr Allan moves on.

Another pivotal figure is Lord Irvine, the Lord Chancellor and Mr Blair's former pupil-master when he was training to be a lawyer. Lord Irvine is expected to chair a number of important cabinet committees, where much of the important business of government is conducted.

Mr Mandelson will probably sit on many of these, although not as a full member of cabinet.

The cabinet may, therefore, feel it is not the government's main decision-making body. The only cabinet minister who has been given a more powerful job than he expected is the deputy prime minister, Mr John Prescott.

However, he assembled his team yesterday without any clear idea how his empire would operate, where he would be based, or how his ministerial team would divide responsibilities.

Mr Prescott possesses probably the longest job title in Whitehall history - deputy prime minister and secretary of state for environment, transport and the regions - but he will have to sketch out the job description himself.

The deputy prime minister insists that he will be in complete control of all aspects of his new brief. "Prescott is saying that he is the boss," he says, "he is going to do everything," said one official.

But while Mr Prescott is in danger of spreading himself too thinly, other cabinet members are likely to worry they are under-employed. When, for example, one of Mr Blair's close allies was asked the responsibilities of Mr David Clark, the chancellor of the duchy of Lancaster, the reply was: "God alone knows."

Meanwhile, the existence of a Praetorian guard of arch-Blairites as ministers of state further reinforces the impression that the cabinet is neutered. In theory they are deputies to their respective cabinet ministers, but given that many are closer to Mr Blair than fully-fledged cabinet members, they may become more influential than their masters.

The Department of Health is a hotbed of thrusting Blairites, containing both Ms Tessa Jowell and Mr Alan Milburn as ministers of state. Another moderniser, Mr Stephen Byers, has been given the plum job of education minister in charge of raising school standards.

"A lot of ministers of state will make names for themselves very quickly," said a close colleague of Mr Blair, adding that the prime minister did not have strong views on how much time had to elapse before a reshuffle.



Doug Henderson, right, the UK's new minister for Europe, who pledged a fresh start in relations with the EU, greets Michel Rocard, the Dutch foreign affairs secretary, before the intergovernmental conference in Brussels yesterday

Plan to cut tax on domestic fuel may breach Brussels rules

By Emma Tucker in Brussels

The government's plan to reduce value added tax on domestic fuel from 8 per cent to 5 per cent could run into difficulties in Brussels by breaching the European Union's rules on indirect taxation.

But the European Commission has admitted that the legal situation is murky and has stopped short of describing the proposed reduction of VAT as a violation of EU legislation. Instead, it has described it as "going against the spirit" of the law.

This may be regrettable for the new government, led by Mr Tony Blair, which is keen to reassert the UK's relationship with its European partners. But it is not enough to deter the govern-

ment from its plans. "We can reduce VAT to 5 per cent under the terms of the current directive," said an official close to Mr Gordon Brown, the chancellor (chief finance minister). "This is what we will do in our first Budget."

British diplomats in Brussels appear to share this view. "The commission may see this as going against the spirit of the need to harmonise VAT, but legally it is appropriate," one said.

The problem for the commission is whether to take a tough line over a move which clearly goes against the overall EU aim of harmonising VAT rates and reducing distortions to the single market, or whether to avoid confrontation with a new government that is better disposed towards Europe

than its predecessor. Much will depend on whether other EU member states complain. Amid concerns over "tax competition", with member states accusing each other of distorting trade through competitive tax reductions, some may argue that they should be allowed to follow suit.

Mr Mario Monti, the commissioner charged with overseeing the harmonisation of VAT rates inside the single market, would be reluctant to see a widening of already considerable tax disparities.

His goal of harmonising VAT rates is still more aspirational than reality. But a minimum rate of 15 per cent has been set for most products - there is no maximum yet - and legislation for

moving towards greater harmonisation is under discussion. Britain's VAT reduction would in any case apply only to domestic fuels.

"It is true that, literally speaking, there is no violation of the legislation," the commission said. "But the European Court might decide to interpret the rules by looking at the overall objectives and not just at the actual wording."

The only way to find out would be for the commission to take the UK to court. At present that looks unlikely, and in fact Britain has not yet even drawn up the legislation.

As the commission said: "There are a lot of questions which we can't answer today."

Brown's first test, Page 15

Dutch to press Blair over EU reforms

By Gordon Cramb in Amsterdam

The Dutch presidency of the European Union will this week seek to pin down Mr Tony Blair, the prime minister, on the approach his government will adopt to the planned reform of Brussels structures, which the Netherlands is anxious to resolve before it hosts an Amsterdam summit in mid-June.

Mr Wim Kok, prime minister, and Mr Hans van Mierlo, foreign minister, are to travel to London on Friday for meetings with Mr Blair and Mr Robin Cook, UK foreign secretary. They are likely to be comforted by the positive tone adopted in Brussels yesterday by Mr Doug Henderson, Britain's minister for Europe, at a session of the inter-governmental conference preparing the way for EU enlargement.

The Hague retains concerns that the UK team will not want to commit quickly to the detailed formulae necessary to resolve issues such as an extension of majority voting. While Mr Henderson indicated Britain's willingness in principle to agree to the erosion of veto powers which this would involve, the precise weighting of votes within the council of ministers remained on a long list of questions to be settled.

The Dutch are keen to secure a Treaty of Amsterdam which would lay a path opening the EU to the candidate member countries of eastern Europe. This would crown their six-month term in the same way as the Maastricht treaty on closer integration, agreed when they were last in the chair.

The presidency stressed, even before it took over from Ireland in January, that it faced a tight timetable. Since then this has been disrupted by elections in Britain and France. The Hague has redrawn its schedule a number of times to keep the process on course.

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LAW

Interest on care award



EUROPEAN COURT

Where a European Union member state has failed to implement properly a directive, on equal treatment, damages including interest would be payable to the individual affected, even when the result prescribed by the directive had been met, the European Court of Justice ruled.

The case arose in the context of the non-payment of invalidity care allowance to a woman who had looked after her sick daughter for more than 20 years.

Under UK law individuals are entitled to the allowance for any day on which that person was engaged in caring for a severely disabled person, provided the activity was regular and substantial, the carer was not gainfully employed and the disabled individual was a relative, where applicants met the other criteria before pensionable age.

The 1979 European directive on equal treatment in social protection schemes, applied to employed and self-employed persons whose activities were interrupted by illness, accident or involuntary unemployment.

The directive outlawed sex discrimination. However, member states were not to exclude from its scope, the determination of pensionable ages for granting retirement pensions and the possible consequences for other benefits.

Mrs Eunice Sutton applied for invalidity care allowance in 1987, aged 63. The application was refused, on the ground that the applicant had reached retirement age and could not be treated as entitled to the allowance before reaching 60.

Mrs Sutton appealed, arguing the UK provisions breached the directive, since they prevented her, on account of her age, from receiving a benefit to which a man would have been entitled. Her appeal was rejected because the decision fell within the exception ex-

cluding the determination of pensionable ages from the directive's provisions and secondly because she was not working when she started to care for her daughter.

She again appealed, and in the light of another judgment by the Court the appeal tribunal found the UK authorities could not rely on the exception to justify their refusal of the allowance to women over 60. Mrs Sutton also provided evidence that she had been in part-time work when her daughter fell ill.

The Social Security Commissioner ordered that she was entitled to the allowance. She was refused interest on the money awarded by the secretary of state on the grounds that interest was not payable on benefits.

Mrs Sutton appealed on the basis that she was entitled to interest as a matter of European law. The matter was referred to the Luxembourg Court.

She first argued that interest should be paid because her situation was analogous to that under another directive on equal treatment in access to working conditions.

The Court said the directives were not analogous. Benefits such as invalidity care allowance were only payable if specified criteria were met and were thus not compensatory in nature.

However, the Court upheld her submission that the right to interest on arrears of benefit followed from the European law principle that a member state is liable for breaches of European law.

The Court said there was no reason why the UK's breach should not be remedied by compensation in the form of interest as long as the criteria laid down by the Court in relation to member states' liability for European law breaches were met.

C-66/95 R v Secretary of State for Social Security, ex parte Sutton, ECJ FC, April 22 1997.

BRICK COURT CHAMBERS, BRUSSELS

Japanese banks elect spokesman

Naotaka Saeki, the president of Sanwa Bank, has assumed chairmanship of the Federation of Bankers Association in Japan, the top post in Japan's banking industry.

The chairman is elected annually by the federation's board members from among executives of the country's largest banks, and is seen as the industry's key spokesman.

Saeki, who is often consulted by the government on policy matters, is the first Sanwa Bank president to be appointed federation chairman. His appointment comes at a crucial time, when the government's "big bank" financial reforms are taking shape.

Saeki has been a strong advocate of further deregulation in the banking industry and recently warned that if Japanese banks continue to act high-handedly, "their customers will desert them."

He joined Sanwa Bank immediately after graduating from Tokyo University in 1969. Now 63, he assumed the presidency in 1994 at the age of 59. In his long career with Sanwa, Saeki gained a reputa-

tion as a tough negotiator, particularly in dealing with the bank's financially troubled affiliates. Under his leadership, Sanwa Bank has made progress in clearing its nonperforming debt and expanded into investment banking and international operations.

Gwen Robinson, Tokyo

Duke Chapman to join ABN AMRO

Finance has never been a retiring business in Chicago, particularly if one looks at the records of the city's chief executives. When Duke (Duke) Chapman retired as chairman of the Chicago Board Options Exchange in March, no one expected him to repair to the golf course full-time.

He has now been named vice chairman of ABN AMRO Chicago Corporation, and has taken on responsibilities for building a cohesive retail banking operation for the largest foreign bank in the United States.

The Netherlands-based bank has been on an acquisitions binge during the past two years, and Chapman will have a considerable task standardising the delivery of per-

sonal financial services across the group's diverse holdings.

The 65-year-old Chapman is an experienced change master. He has been chief executive of the CBOE less than a year when the great stock market crash of October 19, 1987 left the options exchange - the world's largest - deeply wounded. It took years of careful work to rebuild investor confidence before the equity market's volumes began to rebound.

Chapman is recognised for his diligent leadership in that repair. He was a founding member of the Options Industry Council, a consortium of US options exchanges formed after the crash to educate retail investors about the equities markets. He also successfully diversified the CBOE's product base to attract more institutional investors.

Hia exchange duties were a detour from a long career in the brokerage business. Prior to joining the CBOE he was vice chairman of American Express Bank in London, overseeing their private banking business in 41 countries.

He began working in financial services at Shearson in 1966 after a brief stint as a lawyer for the Securities and Exchange Commission.

At Shearson he quickly rose through the ranks to become president and chief executive. When Shearson merged with American Express Chapman served as co-chairman of the merged entity, Shearson American Express.

Laurie Moore Chicago

New breed of managers at Fidelity

Last year, Fidelity, the world's largest fund manager, was forced into personnel changes by a steady stream of departures by fund managers. But the last two weeks have seen a series of radical changes of the company's own making.

In the process, it has created several new job titles, and shaken up its management style, which has traditionally revolved around recruiting brilliant young fund managers and leaving them alone to perform. The net result, it seems, has been to hand the company over to professional managers, rather than to people whose skills lie in investment, and to secure a succession to Ned Johnson, its 66-year-old president.

The first fall of the dominoes came two weeks ago with the move

of Gary Burkhead, the 55-year-old chief executive of Fidelity Management & Research, investment adviser to Fidelity's mutual funds, who was moved to a newly created position as president of the company's institutional group.

Fidelity said it wanted to focus more on institutional and retirement business. Most analysts assumed that the main reason for the move was to ease Burkhead out of his position at FMR.

His replacement, Robert Pozan, is a lawyer by training and not a fund manager. He is expected to work on enforcing discipline among the fund managers. Last week brought fresh evidence of this, when he created three new "associate directors" to oversee mutual funds. One of them is Abigail Johnson, daughter of Ned. She will co-ordinate specialised growth and capital appreciation funds, the core of Fidelity's business.

What does it all mean? Fidelity has finally accepted that it has outgrown a management structure adopted when it was a much smaller outfit. And, despite denials and disavowals it seems that Abigail Johnson is being groomed to succeed her father.

John Authers, New York

ON THE MOVE

■ Paolo Mieli, editor of Italy's best-selling daily Corriere della Sera, has been appointed managing editor of the RCS publishing group, which owns Corriere. The promotion of Mieli, aged 48, follows five years as editor, during which time his paper overtook rival La Repubblica to regain its place as Italy's most authoritative and profitable all-round daily.

His innovations at Corriere included pioneering a successful weekly woman's magazine. His move follows a change of identity for RCS's traditional owner, Gemina - controlled by the Agnelli family and Mediobanca - which has merged with the Marzotto textile group. Mieli was previously editor of the Agnelli's Turin-based La Stampa.

■ Robert Cunningham, executive vice-president of sales and marketing at SWIFT TRANSPORTATION has resigned. Swift is the holding company for Swift Transportation, a truckload carrier headquartered in Phoenix, US. It is the fourth largest publicly-held national truckload carrier in the US.

■ John Phillips, former Reserve Bank of Australia deputy-governor has been appointed chairman of the Australian government's Foreign Investment Review Board. Phillips, who is appointed for a five-year term, replaces Ken Stone, who has been acting board chairman since October 1992. Stone will continue as a board member.

■ SNYDER OIL CORPORATION has appointed William Hargett, 47, as president, chief operating officer and a director of the company. He was previously president and a director of Greenhill Petroleum Corp. John Snyder will resign from his post as interim president, but will continue as chief executive and chairman. He was appointed interim president during the search for a president after Thomas Edelman resigned to pursue other opportunities. Snyder Oil, Fort Worth, produces, develops, acquires and explores for domestic oil and gas properties.

■ UNIGLOBE TRAVEL ONLINE has appointed Raymond Townsend to senior vice president global sales & marketing. UTO, is the publicly traded subsidiary of

Uniglobe Travel (international), which is the world's largest retail travel franchise company and is headquartered in Vancouver.

■ Pieter van der Wal, 57, former chairman of the board of management of Grundig, has been appointed regional executive Asia Pacific for PHILIPS ELECTRONICS. The country managers in the region will report to Van der Wal in Singapore.

■ The AUSTRALIAN WHEAT BOARD has appointed Murray Rogers, executive chairman of Kellogg Australia, a unit of Kellogg, as its new managing director. He will replace former AWB managing director John Lawrenson, who has been with the board for seven years. Rogers will lead the AWB through a major period of change, which will involve a government competition policy review in 1999. The main focus of the review will be whether the AWB is allowed to retain its successful monopoly of Australian wheat export sales.

■ NATIONAL AUSTRALIA BANK has appointed Wayne Rees as chief operating

officer of its Michigan National Bank unit in the US. He was previously head of NAB's premier financial services division based in Sydney.

■ NATWEST MARKETS has appointed Gordon McCulloch to head its European equity derivative and programme trading operations. He joins from Morgan Stanley where he has been executive director and head of European equity derivative trading.

■ Richard Chan, managing director of WAH TAK FUNG HOLDINGS has resigned. He will be replaced by David Chu. He is already an executive director at the commercial property development and investment company.

■ AEGON's Dutch investment unit Beleggen Nederland has appointed John Wilkinson head of its equities department. He has been portfolio manager at PanAngora Management in London for the past eight years.

■ PAINEWEBBER INCORPORATED has appointed Michael O'Hanlon to head the company's London-based international fixed income business. Alison Cottrell will become

chief international economist, the position previously held by O'Hanlon.

■ RHONE-POULENC chairman Jean-Rene Fourtoul, 58, and Jean-Dominique Comolli, 49, chairman of Seita join Pernod Ricard's board of directors. The shareholders of the company will be asked to approve their appointment at the Pernod-Ricard agm today.

■ PRICE WATERHOUSE has appointed Albert Macchioni to its corporate finance group as a managing director, high technology sector, resident in the New York Office.

■ Pierre Durand joins NATWEST MARKETS as a managing director and head of emerging markets trading and research for its global financial markets division. He will take up his New York-based position in May. Prior to joining NatWest Markets, Durand worked at Donaldson Lufkin & Jenrette.

■ NOVELL, the world's leading networking company, has appointed Roland Richter as the new head of Novell in Europe. He will become vice-president, Novell Europe, Middle East

and Africa.

■ Andrew Cova has been appointed by SUN CHEMICAL as senior vice-president, responsible for all of Sun Chemical's printing ink operations in Europe.

■ Alberto Ciarniello of Telecom Italia Mobile, has been appointed chairman of the ERMES Memorandum of Understanding Steering Group. He takes over from Bob Rogers of Infomobile, France. Ciarniello currently works within the network engineering department of Telecom Italia Mobile.

■ Ian Stuart becomes president of MEAD JOHNSON NUTRITIONALS. Mead Johnson Nutritionals, a division of Bristol-Myers Squibb, is a world leader in infant formulas, medical nutritional and consumer nutritional products.

International appointments

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2. Joint Decision of the Ministers of National Economy, and Finance, and the Governor of the Bank of Greece, No. 25559/B.920/22.7.96 (G.G. 627/30.7.96); and
3. Joint Decision of the Minister of National Economy and Finance, and the Governor of the Bank of Greece, No. 9790/B.417/24.3.97 (G.G. 828/24.3.97)

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Initial bids including all necessary documentation (as stated in the above-mentioned Joint Ministerial Decision No. 25559/B.920/22.7.96 and the Information Memorandum) must be submitted at the latest by 14:00 hrs on Friday, June 6, 1997. The bids will be submitted, by hand, at the offices of the «Under Liquidation Old Bank of Crete (Law 2330/95)», 20 Voukourestiou Street, 5th Floor, Athens 10671, Greece (Tel. +301 3641240, Fax +301 3642162) between 09:00 and 14:00 hrs, Monday to Friday. The sealed bids will be received, with receipt acknowledged, only by Messrs Vesileios Stamboulis or George Rigalos. Bids received later than 14:00 hrs on June 6, 1997, including those dispatched on an earlier date, will not be considered.

The UK based investment bank CHARTERHOUSE BANK LIMITED and CCF FINELY S.A., a subsidiary of the French investment bank Credit Commercial de France S.A., have been appointed to act as joint advisors to the vendors on the sale of Cretabank.

To obtain the full text of the announcement, and any further information, please contact:

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TECHNOLOGY

In their search to make cars lighter and reduce fuel consumption and exhaust emissions, carmakers around the world are suddenly converging on magnesium.

Although small quantities of magnesium alloy have been widely used in cars for many years, interest in this lightweight and very strong material is starting to increase sharply.

Dwain Magers, director of market development at Hydro Magnesium, part of Norway's Norsk Hydro, predicts that worldwide demand for magnesium die-castings will rise from 72,300 tons last year to more than 200,000 tons by 2005. "A growth rate of more than 15 per cent per year is expected well into the next century," he says.

New vehicles show how magnesium is increasingly being used to replace steel, aluminium and sometimes plastic. The new Fiat Tempra 1500, for example, features a magnesium gearbox casing, giving a 4.5kg weight saving.

However, the main evidence that magnesium is top priority for carmakers is the number of deals that companies such as Volkswagen, Ford, General Motors and Toyota are involved in with magnesium producers.

Volkswagen was the first to commit itself. It has gone into partnership with Israel's Dead Sea Works and owns 35 per cent of a production facility that the two companies have set up in a joint venture, Dead Sea Magnesium. The first batch of magnesium alloy from the venture is due to be shipped later this year.

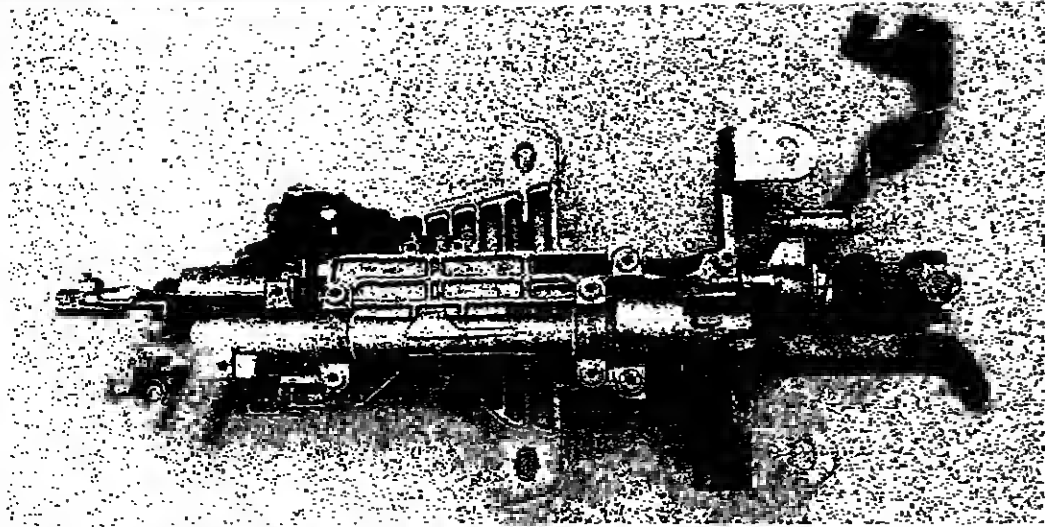
Ford, meanwhile, has signed a multi-billion dollar contract with the Australian Magnesium Corporation.

Says Carole Mazzorin, vice-president of purchasing for Ford Automotive Operations: "This will allow our engineering community to leapfrog the competition by moving away from designs that call for small amounts of magnesium and aluminium to designs that call for much larger amounts of magnesium."

Magnesium's big advantage is its weight: its mechanical properties mean that it can even provide weight gains over plastic.

Despite the benefits, applications of magnesium as an engineering material have been slow to take off. One reason is the material's poor reputation for being highly inflammable and prone to corrosion - real difficulties for which real solutions have now been found.

"The magnesium alloys used today are high-purity ones made



Body shop: carmakers are finding that magnesium has advantages

No added burden

Carmakers around the world are increasingly focusing on magnesium, says Anna Kochan

in a closely controlled process. They have a corrosion resistance superior to the most common aluminium alloys," says John Kottuch, sales manager for Europe at Dismakers, the UK magnesium diecasting producer.

"While pure magnesium ignites easily when exposed to air," he adds, "the machining of magnesium alloy does not pose a fire risk as long as the appropriate cutting conditions are maintained. Cutting fluids, for example, must be used to keep the alloy below its melting temperature."

The second problem has been cost. Pound for pound, magnesium is more than twice the price of aluminium, its main competitor for weight-reduction projects.

However, switching to magnesium does not necessarily mean higher costs. The diecasting process which is used to produce the bulk of automotive magnesium components favours magnesium. Parts which are complex, thin-walled and accurate can be diecast from magnesium but not from aluminium.

This means automotive parts can be redesigned to ensure that, in spite of its higher price, magnesium does not incur additional costs when used to

replace existing materials. According to Magers, the instrument panel is an assembly for which magnesium is being increasingly used as a replacement for steel and plastic materials which are cheaper than aluminium.

By redesigning the whole assembly so that diecast magnesium can be employed, the total weight can be reduced by at least 15 per cent and the number of individual components cut, he says. Using diecasting, it is possible to combine several components into one, parts can be snapped together and fewer fasteners are needed in assembly.

The economies that can be gained by banding fewer parts and reducing assembly operations are likely to outweigh the additional cost.

Between now and 2000, Magers expects to see most growth in the use of magnesium diecastings for parts such as cylinder head covers, intake manifolds, steering columns, instrument panels and seats.

In the next century, further applications are likely to be found for magnesium engine blocks, engine blocks, oil pans, grill reinforcements, wheels, roof panels, rear deck lids and

structural supports, he adds. Meanwhile, research into magnesium continues. A three-year program began this year in Germany to further develop and optimise magnesium alloy products and processes. It is supported by the German government and all the main German carmakers.

Friedrich Klein, manager of the programme and a professor at Fachhochschule Aalen, a technical university near Stuttgart, hopes the project will lead to cheaper magnesium diecastings. "No diecasting machine designed specifically for magnesium alloys is currently available on the market," he says.

"Diecasters have to adapt equipment originally intended for aluminium or zinc. We plan to design a machine which is optimised for magnesium alloys. In this way, the cost of castings could be cut by as much as 20 per cent."

Israel's Dead Sea Magnesium is also launching a research activity. It is setting up the Magnesium Research Institute at the nearby Ben Gurion University in Beersheva. This will focus on the development of new alloys to extend the applications of magnesium, says Daniel Rosing, DSM's vice-president for marketing.

Viewpoint • Dominic Hogg

Feed me with the evidence of safety

Policymakers tend to err on the opposite side of caution in awarding their consent for the introduction of new technologies and techniques.

The benefits of technology were assumed to be greater than the risks - where these were considered at all - involved with their use. Today, the negative impacts of new technologies are the subject of increasing scrutiny. Most recently, genetic engineering has fallen under this spotlight.

Henry Miller's article (Technology page, April 22) on the labelling of genetically engineered foods repeatedly suggests the existence of a consensus regarding the "exemplary safety" of genetically engineered foods. This is a misrepresentation and undermines the credibility of the argument that he seeks to advance.

The move to put genetically engineered foods in supermarkets takes place against a background of some anxiety among scientists, not to mention consumer groups. If the safety of these foods is exemplary, where are these tried and tested exemplars? Miller makes the classic mistake of equating lack of evidence of harm as evidence of safety.

It is unfortunate that those who seek to prevent the labelling of genetically engineered foods refuse to accept that there could be legitimate reasons for wanting to do so. The stubbornness of their position is founded upon an opinion that the risks associated with such foods are no different to those associated with the products of hybridisation and wide crosses, which can be achieved through traditional plant breeding techniques. They also appeal to the accuracy with which organisms can be engineered using these new techniques.

But neither argument holds water. Regarding equivalence, genetic engineering makes

possible some things that cannot be done through traditional methods. If it did not, why would genetic engineering be so novel? It enables crossing of species barriers. The same genes can function quite differently depending on the genetic background in which it is inserted, so the crossing of these barriers is significant.

The accuracy argument is overplayed. Those using gene transfer techniques do not know where DNA fragments will end up, nor can they be sure they will be expressed in the target organism. A way of checking for expression is to track the DNA with antibiotic-resistant marker genes, the prevalence of which in genetically engineered foods is a significant reason for concern regarding food safety.

One-sided commentaries over-simplify the situation faced

important support role to play. Those involved in agrofood biotechnology have assumed that institutional structures would support the industry, even when the companies concerned became fully aware of public concern over such foods - not least because some of their own scientists are also concerned.

Heaven forbid, they may have thought, that a money-spinning innovation using cutting-edge science should not get used in these days where technological leadership and competitiveness are perceived as one and the same. But this is the risk a company should have to run if it were to invest in a new technology surrounded by scientific and regulatory uncertainty.

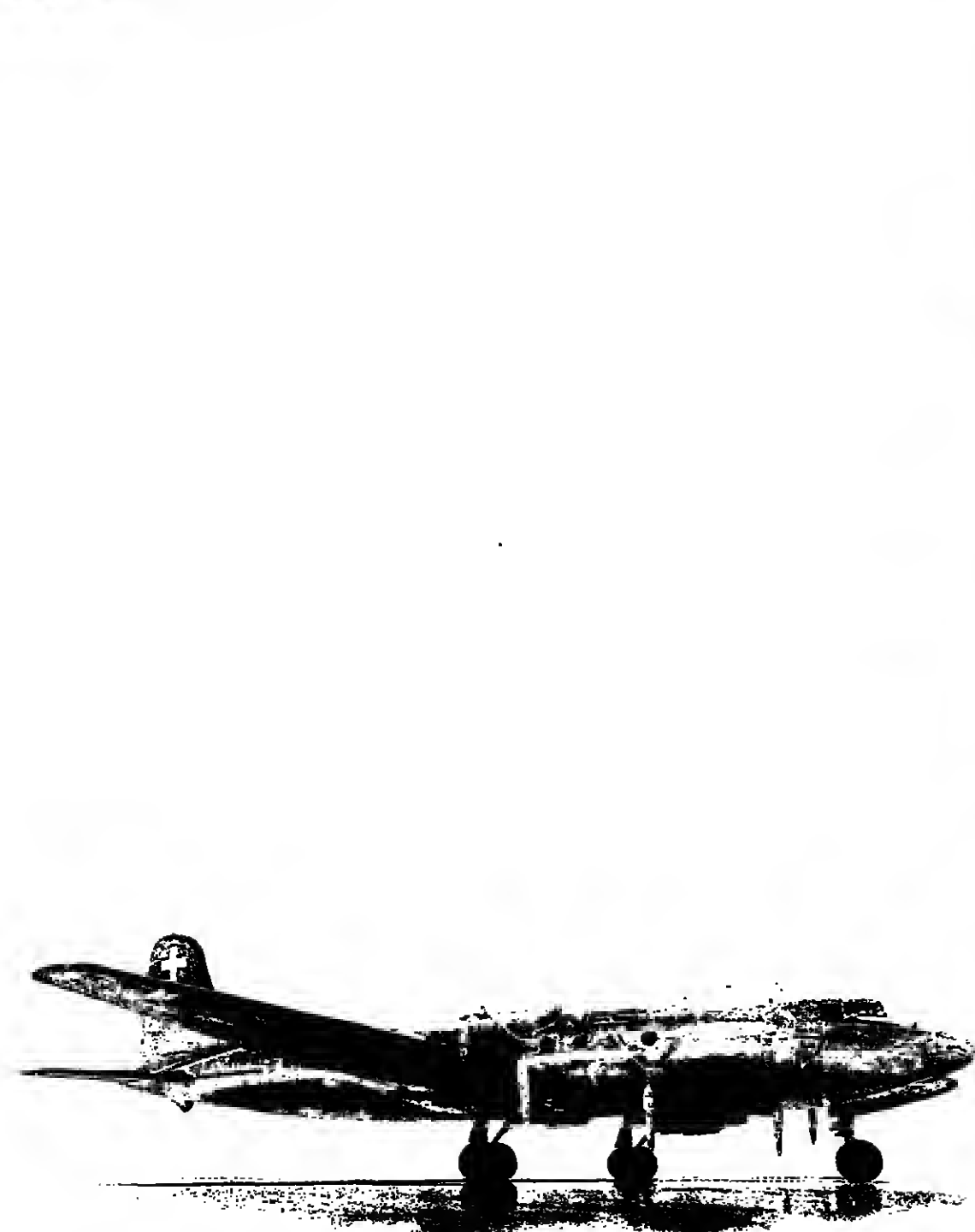
I shall stick to non-modified foods since I perceive there to be an element of risk in not doing so. Some scientists will call me irrational, and claim the risk associated with such foods is smaller than that of my being knocked down every time I cross the road. I have a choice as to whether I cross the road. Without labelling, I cannot choose whether or not to eat genetically engineered foods, yet I have to eat.

In the meantime, I should like the supporters of genetically modified foods to furnish me with empirical evidence of their safety - by supporting a labelling scheme, and consuming such foods themselves.

Those, like me, who are more cautious, need not, and we will then have created a sort of controlled experiment where I can look at the Henry Millers of the world and modify - or not - my decision on the basis of empirical observation. But for now, I shall seek to minimise the risks which I perceive are involved in consuming genetically modified food.

The author is completing Ph.D. research at Cambridge University on the genetics supply industry and is a consultant with Birmingham-based Ecotec Research and Consulting.

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CITY INDEX

مركز من الأخبار

Growing up in public

Lynn MacRitchie reviews the work of Tracey Emin and Gillian Wearing

Girl talk is everywhere now. Up front, in your face and often downright dirty. It is the language of the Spice Girls, of giggly late night TV shows and now the art world. For Tracey Emin is the art world's very own Spice Girl: outspoken, frank, funny and just a little unimposing.

Her show at the South London Gallery contains work in many media - drawings, prints, sewn pieces, photographs, installations - but, appropriately, the most compelling items are the video tapes. In these the artist, with a little help from her Mum and her twin brother Paul, tells the story of her troubled adolescence, growing up in Margate, leaving school at 13, the age at which she was also "broken into" - Margate slang for being raped. Then there was lots of sex, mostly with older men, and dancing and drinking. Emin was - is - a good dancer. But when she entered a dance contest, all the men she had had sex with gathered round, chanting "Slag, slag, slag..." until she ran weeping from the hall.

This contest had offered a means of escape, of getting to London, to a new life. She got there eventually, of course, and now she has taped herself dancing triumphantly, smiling, spinning round and round, naming her tormentors. "Here's one for you Shane, Eddy, Richard..." the list of names goes on and on. Emin is nothing if not a survivor, but the abuse - for this is abuse we are hearing about, no matter how pluckily borne - has left its mark. Now in her mid-30s, her work is still all about need - the need for love, needing the certainty of visceral emotion. It seems that, for her, feelings have to be extreme to be real. Her insistence on empathy leaves little space for the viewer to stand back from their creator, who meanwhile, quite literally, exposes more and more of herself.

Her works are made for an

audience. For "Exorcism of the last painting I ever made" she lived for days in a room built in an art gallery in Stockholm, stripped naked, making paintings in different styles: viewers could watch her only through a fish eye lens set in this door.

At art school, first Maidstone, then the Royal College, she tried to paint, but had always felt that she failed: at the RCA, she took all her canvases outside and chopped them into pieces. "Exorcism" is her revenge, art making itself turned into a peep show.

Over at the Chisenhale Gallery, Emin's contemporary, Gillian Wearing, also works with themes of adolescent angst. In "10-16", a new video work commissioned by the gallery, she has taped the tales of a group of adolescents who were allowed to tell her whatever was on their minds. These are then presented as if spoken by adult actors, in little scenarios staged by Wearing.

The taped, young voices emerge from adult bodies, full of violence and anger, their lack of restraint shocking when contrasted with the older, more cautious faces from which the words now sound. "I do feel anxious about my mother - and I'd love to kill her very much," says a naked dwarf lying in a bath. Why naked? Why a dwarf? Wearing explains that the tale of the boy's hatred for his mother's lesbian lover, referred to throughout as "The White Swan", was so strange it needed to be retold in a surreal way.

The dwarf, a professional actor, had done a lot of work with Walt Disney: it seemed to fit. And it does, especially when he concludes the tale by recounting how to murder someone with green peas, a modern version of the green poisoned apple in Snow White (you freeze them and thaw them a few times, heat into soup, serve and "They don't know what's killed them.")

Also shocking are the two ladies sitting enjoying their sandwiches on the grass. The one in the white blouse opens her mouth and observes, in the voice of an 11-year-old girl, "It's important to be tough. Only every time I hit people, I think, why did I do that?" She carries on to wonder why, having punched and kicked her way through school, "Nobody seems to like me very much."

This genuine turmoil - other tales explore the horrors of being overweight, an uncertain sexuality, the joy of drinking, worries about animals being "extinct" and concern about abortions - reveal a world of fierce emotions not yet trammelled in adult ways of restraint. The words tumble

out, crude, jumbled but unmistakably authentic, the raw feelings painfully real.

Both Emin and Wearing have turned to adolescence to find an authenticity the grown up world is felt to lack. Wearing's formal device of putting young words in old mouths makes the powerful point that these stoic adults have somehow grown around those seething emotions, which are now locked away inside them, no longer expressed but still there.

Emin's dependence on her own self-exposure is more dangerous: while her powerful physical presence, and the authenticity of her recalled emotions - she often cries or laughs uproariously in

the video tapes - make her tale telling compulsive, she still seems to be searching for a formal medium removed from herself that is strong enough to carry the weight of such powerful feelings. Her drawn and sewn pieces, although immediate and appealing, do not quite have the substance she will need fully to sustain her while, as all artists must, she continues to grow up in public.

Tracey Emin: *I need art like I need God*, April 16 - May 18; South London Gallery, 65, Peckham Road, London, SE5. 10-16, Gillian Wearing, 30 April 30 - June 1, Chisenhale Gallery, 64, Chisenhale Road, London E3.

Theatre/Sarah Hemming

Women in the dangerous grip of devotion

where). In that time, we learn, she has built their new home. The entire play takes place in the living room of this new house with its commanding view of the lake and we gather that she had it built to entice him home.

Quite why she should bother is a mystery to any outsider: her husband, as played by Robert Gwilym, is a shift type with terrible taste in clothes and a very modest talent, whose reaction to the Mai's devotion is to run away with the nearest married woman he can find. But this, one suspects, is the point. Carr seems interested in anatomising the catastrophically different expectations of men and women and

their different experiences of disillusionment. Around the Mai and Robert, Carr arranges a squadron of female relatives, all of whom are struggling to accommodate their unfulfilled hopes.

There is Grandma Fraochlan, 100 years old, still clinging to her idealised memory of her "nine fingered fisherman" as tightly as she grips the car that she always carries with her. There are her two interfering daughters, widow and spinster, who come round to squabble, and her three granddaughters: the miserably married Connie, the permanently roaming Beck and the Mai. There is also

great granddaughter Millie, who hangs around on stage as a teenager, occasionally stepping out of the action to comment on it from the vantage point of this future.

Through these characters Carr debastes ideas about love, marriage and motherhood (according to Grandma Fraochlan there are two types of parents: those that put the children first and those that put the lover first), about romantic hopes and about the long arm of the past. And while all this is going on, the Mai slowly but surely steams towards her own doom.

Carr is a funny and observant playwright. Her collection of motley relatives have some great

exchanges and the formidable, opium-smoking Grandma Fraochlan is a delightful creation, enjoyably played by Myra Carter. But while this is all absorbing, and wittily staged in Nicolas Kent's production, neither the writing nor the production suggests strongly enough the gathering momentum of tragedy. This is something one felt keenly in *Portia Coughlan*, together with the anguish of the central character. Here, even Judith Scott's striking portrayal of the Mai is not sufficient: although you see her light dimming before you, you never believe she is desperate enough to do anything final.

So it is that the play seems to come to a halt, rather than build to a climax. But Carr is clearly a playwright of promise, and since her more recent work was so powerful, she is surely developing her own unique voice.

Continues at the Tricycle Theatre, London NWs to May 31 (0171-332-1000).



Tantalising: Emmanuelle Béart



BERLIN

CONCERT
Konzerthaus Berlin Tel: 49-30-203090
● Evgeny Korolov: the pianist performs works by Bach and Beethoven; May 9
Philharmonie Berlin - Grosser Saal & Kammermusiksaal Tel: 49-30-2614383
● Deutsches Symphonie-Orchester: with conductor Vladimir Ashkenazy and violinists Bernhard Hartog and Hans Maile in works by Schubert and Brahms; May 9
OPERA
Deutsche Oper Tel: 49-30-3438401
● Herzog-Blaubeck-Burg: by Bartók. Conducted by Jiri Kout, performed by Deutsche Oper and the Wiener Staatsoper. Soloists include Richard Cowan, Doris Soffel, Ivan Sardi and Keran Armstrong. The programme also includes a performance of *Erwartung* by Schoenberg; May 6
Staatsoper Unter den Linden Tel: 49-30-20354438

● Der Freischütz: by Weber. Conducted by Zubin Mehta, performed by the Staatsoper Unter den Linden. Soloists include Roman Trekel, Carola Höhn and Dorothea Röschmann; May 8

BRUSSELS

EXHIBITION
Musées royaux d'Art et d'Histoire - Tour japonaise et Pavillon chinois Tel: 32-2-7417211
● Samurais: display of decorated swords belonging to Samurai guards. The pieces are drawn from a number of collections, including those of Edmond Michotte and Jean-Ernest van den Broeck; to Sep 1

CHICAGO

EXHIBITION
Art Institute of Chicago Tel: 1-312-4433600
● Charles Rennie Mackintosh: billed as the most comprehensive show of Mackintosh's work ever mounted, this exhibition features over 200 objects, including architectural drawings, room settings, furniture, decorative arts, models, watercolours and reconstructions of interiors; to Jun 22

COPENHAGEN

DANCE
Det Kongelige Teater - The Royal Theatre Tel: 45-33 89 89 69
● A Midsummer Night's Dream: choreographed by John Neumeier

to music by Mendelssohn, performed by the Royal Danish Ballet; May 7

DUBLIN

EXHIBITION
Irish Museum of Modern Art Tel: 353-1-8718686
● The Glen Dimplex Artists Award Exhibition 1997: display featuring works by the six artists shortlisted for this year's award: the sculptors Stephen Craig and Dorothy Cross, painter Willie McKee, multi-media artist Maurice O'Connell, photographer Paul Seawright and the partnership of Phelan and McLoughlin who work with time-based art; to Jul 13

FORT WORTH

EXHIBITION
Kimbell Art Museum Tel: 1-817-332-8451
● Georges de la Tour and His World: exhibition bringing together thirty-two paintings by the 17th century French painter and ten works by leading contemporaries, including Caravaggio, Jacques Bellange, Simon Vouet and Hendrick ter Brugghen. La Tour is best remembered for his realistic portrayal of scenes from everyday life and for the dramatic themes of his religious works; to May 11

LONDON

CONCERT
Royal Festival Hall Tel: 44-171-9604242
● Orchestra of the Age of Enlightenment: with conductor

Heinrich Schiff, soprano Judith Howarth, alto Catherine Wyn-Rogers, tenor James Oxley, bass Stephen Gadd and the Brighton Festival Chorus in works by Beethoven; May 7

LOS ANGELES

EXHIBITION
MOCA at California Plaza Tel: 1-213-626-8222
● Ellsworth Kelly: A Retrospective: a complete survey of the artist's paintings and sculptures, spanning five decades of work, beginning in the late 1940s and including 80 paintings, 20 sculptures and 100 works on paper and photographs; to May 18

MADRID

FESTIVAL
Festival Mozart de Madrid Tel: 34-1-3557622
● This year's festival highlights include performances by the Orchestra of the Age of Enlightenment, conducted by Sir Simon Pott. Opening the festival is the Coro Universitario de Baleares, conducted by Trevor Pinnock performing works by

Bach and Mozart; from May 9 to Jun 30

NEW YORK

EXHIBITION
The Metropolitan Museum of Art Tel: 1-212-879-5500
● Indian Court Painting: 16th-19th Century: exhibition of paintings drawn primarily from the Museum's own collection tracing the various traditions of Indian painting over four centuries. This display is one of three this year at the Metropolitan to mark the 50th anniversary of India's independence; to Jul 6

PARIS

EXHIBITION
Musée d'Art Moderne de la Ville de Paris Tel: 33-1 53 67 40 00
● Les Années 30 en Europe: exhibition examining the art of the 1930s. Artists with work on display include Liger, Picasso, Mrs. Dali, Kandinsky, Klee, Dix and Sironi; to May 25

THE HAGUE

CONCERT
Dr Anton Philipszaal Tel: 31-70-3607927
● Residentie Orkest: with conductor Christopher Hogwood and pianist Pascal Rogé in works by Mozart and Brahms. Part of the Brahms Festival '97; May 9

VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Wiener Philharmoniker: with

conductor Riccardo Muti, soprano Ruth Ziesak, alto Vessellina Kasarova, tenor Michael Schade and the Chor des Mitteldeutschen Rundfunks in works by Haydn and Schubert; May 8
Musikverein Tel: 43-1-5058681
● NTO-Tonkünstlerorchester: with conductor Franz Gerstaecker and soprano Silvana Dussmann in works by Brahms, Schubert and Mendelssohn; May 8

WASHINGTON

EXHIBITION
National Gallery of Art Tel: 1-202-7374215
● Picasso: The Early Years, 1892-1906: exhibition revealing Picasso's achievements prior to the advent of Cubism. Beginning with Picasso's formative years, this selection of approximately 125 objects traces the artist's close contact with Catalan modernism in turn-of-the-century Barcelona and his subsequent emergence in Paris. With a close examination of Picasso's Blue and Rose periods, the exhibition culminates with his monumental figure pictures of 1908, which were influenced by ancient Iberian sculpture. In addition to paintings, drawings and pastels, the display includes sculptures, prints and smaller works such as the artist's caricatures; to Jul 27

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COMMENT & ANALYSIS



Martin Wolf

Global opportunities

Rather than damaging wages and throwing people out of work in advanced countries, globalisation has been a force for prosperity in much of the world

Globalisation is the great economic event of our era. It defines what governments can – and should – do. It explains what is happening to the world economy. But why is it so desirable?

In a splendid discussion in its latest World Economic Outlook, the IMF describes it as “the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology”.

Between 1930 and 1990, average revenue per mile in air transport fell from 68 US cents to 11 cents, in 1990 dollars; the cost of a three-minute telephone call between New York and London fell from \$244.65 to \$3.32; and, between 1960 and 1990, the cost of a unit of computing power fell by more than 99 per cent. Improved communications have led to an organisational innovation – the multinational company, a superb mechanism for transferring technology across frontiers.

Technology makes globalisation feasible. Liberalisation makes it happen. Liberalisation there has been: between 1970 and 1997, for example, the number of countries that eliminated exchange controls affecting imports of goods and services jumped from 35 to 137. True, in certain respects, the world economy is less integrated than before the first world war. The UK's capital outflow, for example, was 9 per cent of gross domestic product at its pre-1914 peak, twice as big a share of GDP as outflows from Germany and Japan in the 1930s. The world then effectively operated with a single currency – gold. Likewise, in the early part of the century, the number of workers moving across frontiers was greater than now.

Yet, on balance, globalisation has gone further than ever before. Global ratios of exports to output returned to 1913 levels by 1970, but have since risen from 12 to 17 per cent; financial markets are highly integrated; technology is being transferred at unprecedented rates; and governments are increasingly bound by multilateral agreements.

Why have so many governments chosen – or been forced – to open up to the world economy? Lessons of experience is the answer. States may imprison their citizens, but they cannot force those imprisoned to show the initiative of free people.

Contrast west and east Germany, south and north Korea or Taiwan and Mainland China. In every case, the second of these pairs chose – or was forced to choose – isolation, while the first adopted international economic integration. Over some 40 years, ratios of real incomes per head became three to one or more.

These are the closest to controlled experiments that economic history affords. Their results explain why China liberalised, the Soviet empire disappeared, commu-

nism collapsed and Mr Tony Blair calls his party “New Labour”.

Those who believe the liberalisation of today is incomprehensible or unreasonable are purblind. Yet many do. They have three motivations: hatred of markets; fear of foreigners; and concerns about wages, jobs and economic activity. The first two attitudes are pathological. The last is at least rational.

In advanced economies over the past two decades there have been big increases in wage differences between the skilled and unskilled, or growth in unemployment, or both. This has happened even though the relative supply of skilled workers has risen. Many blame this development on rising competition from low-wage countries. This is indeed conceivable. The evidence suggests, however, that it is largely untrue.

The theory is simple. Imports from countries that have a relative abundance of unskilled labour should lower the prices of products that use such labour relatively intensively. This will shift production in advanced countries towards

products that are intensive in skilled labour, increasing demand for skilled labour and lowering demand for unskilled labour. This shift will be manifested either in a growing wage gap between skilled and unskilled workers or in rising unemployment of the latter.

The theory is elegant. But empirical evidence suggests the relative prices of goods produced by unskilled labour have not fallen, probably because imports from countries like China have replaced imports from countries like South Korea, rather than production in advanced countries. Moreover, merchandise imports from developing countries equal only 3-8 per cent of total output in advanced economies. In an IMF working paper, the effect of globalisation on wages in Advanced Economies, Mr Matthew Slaughter of Dartmouth College and Mr Philip Swagel of the IMF conclude: “Increased trade accounts for only about 10 to 20 per cent of the changes in wages and income distribution in the advanced economies”.

In every advanced economy, the share of the labour force employed in manufacturing has been falling: in the European Union it has dropped from above 30 per cent in 1970 to 20 per cent in 1994; in the US the share has fallen from 26 per cent in 1965 to 16 per cent in 1994. These falls parallel declines in the share of manufacturing in GDP at current prices, suggesting that the reason for the diminished role of manufacturing in employment is the failure of output to grow.

Appearances are misleading. At constant prices there has been very little decline in the share of manufacturing in total output. The faster rate of growth of productivity in manufacturing than in services is, instead, leading to a reduction of relative prices of manufactured

output, as well as of employment in manufacturing per unit of output.

Thus, between 1971 and 1994, output of manufacturing rose at 2.5 per cent a year in the advanced economies, but output per person at 3.1 per cent. For services, the figures were 3.3 and 1.1 per cent respectively. The share of employment in manufacturing was bound to decline, as it has long done in agriculture.

The damage that globalisation has been alleged to cause to some people in advanced countries is largely mythical. What is not mythical, however, has been the opportunity offered by economic integration to poor countries.

Between 1965 and 1995, for example, the real incomes per head of the Asian newly industrialised economies rose seven times, while their share in world trade increased more than fourfold. Similarly, China's period of rapid development can be dated to its decisions to liberalise agriculture and open up to the world economy. Where trade led, capital flows followed: in 1996 capital flows to China were larger than to all developing countries combined in 1989.

Globalisation was not inevitable. Nor does it merely reflect the march of technology. It marks the successful worldwide spread of the economic liberalisation that began nearly 50 years ago in western Europe with the Marshall Plan. It is now bringing unprecedented opportunities to billions of people throughout the world.

Inevitably, those who fear markets and foreigners clamour against it. Their voices must be ignored. What is needed, instead, is a careful consideration of what governments can – and should – do when the market is global, but their sway is merely local. That is the subject of next week's column.

LETTERS TO THE EDITOR

Number One, London, EC4A 3DF

We are keen to receive your comments on the Financial Times. Please send them to: Letters to the Editor, Financial Times, One, London, EC4A 3DF. We will be happy to consider them for publication.

IMF duty to comment on Emu

From Mr Shaileendra J. Anjaria.

Sir, Mr Peter Oppenheimer (Letters, May 2) seriously misunderstood International Monetary Fund officials' recent comments on the possible consequences of a delay in stage 3 of Emu. The IMF staff has argued that the conditions for a successful start of Emu are largely in place. There has been a remarkable reduction in both the level and the dispersion of inflation rates; a considerable reduction in the spreads for long-term interest rates; and significant progress in the fiscal area.

The IMF's World Eco-

nomie Outlook released last month showed that, on the basis of policy measures already announced, nearly all European Union countries, except Greece, could meet the criteria laid down in the Maastricht Treaty. Against this background, not only the IMF but also private forecasters believe that a delay in the start of stage 3 could entail substantial risks. The IMF staff, in pointing to the risk of turbulence in foreign exchange markets, is thus not being “alarmist”.

As to the propriety of the comments, may I point out that this institution, including its head and staff, have

the duty, as part of the IMF's surveillance function, to comment on the creation of Emu, which the recent meeting of its ministerial-level interim committee described as “one of the most important international monetary developments in the post Bretton Woods period”. For the IMF to ignore this development would be an alarming lapse, indeed.

Shaileendra J. Anjaria, director, external relations department, International Monetary Fund, Washington D.C. 20431, US

The telling lesson of a failed union

From Mr Charles Wyatt.

Sir, Throughout his campaign, Mr Tony Blair was reported as reading the Financial Times on numerous occasions. I trust that his promotion to prime minister will not interfere with this habit as an article appeared on his first morning in office which should be pinned by his shaving mirror to read each day.

Christian Tyler (“From European Union – to empire”, May 3/4) compared the Delian League of 478BC with the European Union of 1997. Dominated by Athens, a common currency was introduced when it was decreed, under pain of death, that the currency of all member states should be swapped for Attic currency. Weights and measures were

harmonised and local laws changed to conform with a common line. Seventeen years after formation of the league, Sparta woke up to the fact that it had been emasculated in the council chamber rather than on the battlefield. The Peloponnesian war followed, culminating in the defeat of Athens and dissolution of the Delian League.

Study of this precedent might help Mr Blair contradict the contention by the German philosopher, Georg Hegel, that “people and governments never have learnt anything from history, or acted on principles deduced from it”.

Charles Wyatt, Hurst House, Wittersham, Kent TN30 7EL, UK

From Mr Thomas Hackett.

Sir, Former Tory minister, Tim Renton, in his article “The torture of the minister in waiting” (May 3/4), tactfully omitted from his quotation from *Lycidas* Milton's advice in the immediately preceding lines. It was advice which his former colleagues often took too literally.

“Were it not better done as others use, / To sport with Amaryllis in the Shade / Or with the tables of Neaera's hair...”

In learning from the past administration, will New Labour prefer this rather than “To scorn delights and live laborious days”?

Thomas Hackett, 8, rue des Sept-Fontaines, L-2534 Luxembourg

Imaginative solution to aid world's poor

From Mr Stephen Chipchase.

Sir, When watching on TV a starving, dying child during a third world famine, I remember the reporter's comment: “Western help is on its way, but it is too little, too late for this child.”

Writing off the debt of some of the world's poorest nations as odious, as proposed by the archbishop of Cape Town in his “Personal View” (April 28), is an imaginative, creative, practical and just solution which

needs to be embraced and implemented with the same enthusiasm as Band Aid and Comic Relief.

Stephen Chipchase, 11 Harley Grove, London E3 2AT, UK

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FINANCIAL TIMES
No FT, no comment.

Alice Rawsthorn on the European film industry's revival

When the great and the good of the film industry take their seats at the opening night of the 50th Cannes festival tomorrow, they will see one of the most expensive films ever financed by a European company.

The *Fifth Element*, a futuristic thriller directed by Luc Besson and starring Bruce Willis, is the product of a \$80m (\$55.5m) investment by Gaumont. The French entertainment group backed it in the hope of breaking into the lucrative English-language blockbuster market.

Other European companies, including Canal Plus and Pathé of France, have stepped up their investment in English-language films. And PolyGram of the Netherlands has spent \$800m over six years to establish a Los Angeles-based film subsidiary.

But past European efforts to challenge Hollywood in the global market have been clouded by catastrophe. Will things be different this time?

“If you look at the industry's history, the Americans have trounced the Europeans by being better organised and well funded,” says Sir David Puttnam, the Oscar-winning British producer. “Is the situation likely to improve? Maybe.”

In the past, the industry's problem was that Europe was so fragmented between different languages that most films were financially dependent on their domestic markets. Those markets have shrunk dramatically since the late 1950s as cinema admissions almost halved during the 1960s alone, falling by 500m to 620m in 1990, according to Dodona, the research consultancy.

It became increasingly difficult to produce profitable French, German or Italian language films. And the UK film industry, although blessed with the same language as Hollywood, was dogged by inadequate investment and – unlike France, Germany and the US – a dearth of state support. Production budgets shrank and talented film-makers fled to the US.

Several European companies were badly burnt in Hollywood, including PolyGram which withdrew after an unsuccessful foray there in the early 1980s. Goldcrest, once the UK's most success-

Return of the
blockbuster
moviemakers

Flickering picture: European cinema market

Admissions (millions)		Receipts	
1990	1995	1990	1995
1,077.6	736.0	28,353	23,355
620.2	686.5	19,288	19,424
919.2	919.2	22,115	

Source: Dodona Research

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ful production company, went bust. More recently Crédit Lyonnais, the French bank, incurred heavy losses from its brief stewardship of the MGM/UA studio, as did Canal Plus on its stake in Caracol, the independent US producer that collapsed two years ago.

Yet the European market has changed dramatically in the 1990s, largely because of the growth of multiplex cinemas. More than 1,000 screens have opened since 1990, bringing the total to 20,000, contributing to a 23 per cent increase in ticket sales to 786m last year. The UK and Germany, the most advanced multiplex markets, have two of the fastest expansion rates.

In the UK, admissions have doubled since 1985 when the first multiplex opened at Milton Keynes. This, coupled with the success of *Four Weddings and A Funeral* and *Trainspotting* which have grossed \$250m and \$75m worldwide respectively, has made investors more confident. British producers backed 114 pictures in 1996, the most for 15 years.

Germany has gained 700 screens since 1990, and admissions have risen by 40 per cent to 145m last year.

The new multiscreen cinemas have made it easier for German pictures to secure distribution and in the first quarter of this year they took 37 per cent of receipts, a record since the 1950s. *Werner* and *Männerpension*, examples of the new genre of acerbic comedies, were among the country's top 10 films last year.

Multiplex construction is accelerating across Europe. Time Warner of the US and Australia's Village Roadshow plan to build 300 multiplexes over the next three years. UCI, a joint venture between Seagram and Viacom, the North American entertainment groups, has equally ambitious plans, as does Virgin.

Dodona expects 2,000 screens to open in Europe by the end of the decade, contributing to a 20 per cent increase in admissions to nearly 820m. Revenue from other sources, notably pay-TV and video rental, should show equally strong growth as such markets are under-developed in Europe compared with the US.

Hollywood studios are already basing more productions in Europe in the expectation that it will be one of the fastest growing areas of the global market in the late

1990s. Stanley Kubrick is in London shooting *Eyes Wide Shut*, a thriller starring Tom Cruise. George Lucas has started filming the next *Star Wars* movie on a disused Hertfordshire aerodrome.

European companies are also stepping up their investment, encouraged by the success of young filmmakers such as the *Trainspotting* production trio and Til Schweiger, director of *Knockin' On Heaven's Door*, Germany's latest hit comedy. These relative newcomers tend to be more populist than their predecessors.

Meanwhile, the global audience is increasingly receptive to sophisticated “European” pictures. *The English Patient* has grossed more than \$175m worldwide, buoyed by its Oscar triumph. Even *Kolya*, the Oscar-winning Czech film, has taken \$4m in the US and topped the charts in the Czech Republic last year by grossing nearly twice as much as *Independence Day*.

In the UK, the ITV companies and BSkyB, the satellite television group, plan to invest in feature films, and Mr Richard Branson's Virgin group is considering doing so. Next week the Arts Council will award franchises to four film consortia, each entitled to receive up to \$39m of National Lottery money over six years.

Canal Plus and Pathé recently opened London offices to oversee their investment in English-language pictures, and Gaumont intends to follow suit. Ufa, the German television company which made Fritz Lang's 1920s classics, is returning to film production and may diversify into the English-language market.

PolyGram is making progress in Hollywood. It recently sanctioned an investment of up to \$400m to increase production capacity and establish a US distribution network. Mr Alain Lévy, president, says the loss-making film division “could, and I underline the word could”, become profitable next year.

The film market is so volatile that PolyGram's hopes may yet be scuppered by a couple of expensive flops. But if it succeeds in bucking the Tinseltown curse on European investors and Gaumont's gamble on *The Fifth Element* pays off, Europe could have a flourishing film industry again.

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FINANCIAL TIMES

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Tuesday May 6 1997

C'est moi, Tony Blair

Suddenly, it seems, everyone in Europe wants to be Tony Blair. Italy's centre-left government - pro-European, business-friendly, struggling to keep its leftwing base loyal while pursuing fiscal virtue - has obvious reasons to welcome a kindred spirit. But centre-right governments in France and Germany have also hailed Mr Blair's success, even while their social democratic opponents are jostling to catch the rays of his reflected glory.

It may not last. But it has its amusing side, not least in France where the election campaign started yesterday. A cartoon in *Le Monde* shows president Jacques Chirac, his prime minister, Mr Alain Juppé, and the Socialist leader, Mr Lionel Jospin, all proclaiming "C'est moi, Tony Blair".

According to opinion polls, the combined forces of the French left are now running neck and neck with the centre-right parties. That still leaves the latter odds-on to win: they have a single candidate in almost all constituencies, whereas socialists and communists are bound to shed some votes in the process of transferring them to each other on the second ballot.

It also seems unlikely that supporters of Mr Jean-Marie Le

Pen's National Front, who will form the swing vote on the second ballot in many constituencies, would come down in favour of the left - especially as Mr Jospin is pledged to repeal the tough immigration and nationality laws passed by the right.

Unlikely, but not absolutely impossible. Mr Chirac's decision to intervene personally in the campaign tomorrow suggests that the pro-government forces may be getting rattled.

Naturally, Mr Jospin draws encouragement from the victory of the left across the channel. Mr Juppé and his colleagues have replied by pointing out that New Labour has moved well to the right of France's socialism. Indeed, according to the former finance minister Mr Alain Madelin, "importing even a quarter of Tony Blair's programme into France would be enough to cast us as the most diehard liberals".

That is an exaggeration, but the point is right. If Mr Jospin is no Blair, that is because Mr Chirac is no Thatcher. It is one thing for the left to come to terms with a free-market revolution after it has happened, quite another to expect it to endorse such a revolution even before the right dares to propose it.

Brown's first test

Mr Gordon Brown can no longer claim that he must open the books left by the Conservatives before deciding on his first Budget. He has to make up his mind what to do, instead.

As the UK's new Labour chancellor starts to go through the nation's finances with Treasury officials, there are not likely to be many surprises. In some respects, the figures look better than had been expected. The large hole in tax receipts which opened up a year ago seems to be filling. As a result, the public sector borrowing requirement for 1996-97 turned out to be £3.6bn lower than the £6.4bn forecast by Mr Kenneth Clarke, the former chancellor, in his November Budget.

Compared with the demands which Mr Brown will soon face from his colleagues in spending departments, that difference does not add up to much. But every little helps. Mr Clarke expected the PSBR for the current year to be £15bn: it now looks as if Mr Brown's baseline will be significantly lower - perhaps about £16bn, according to some City estimates.

At 2 per cent of GDP, this would put the UK on course for joining the European monetary union, perhaps in the second round. It would also be a move towards the new government's declared policy of borrowing no more than is needed for public investment, the so-called "golden rule".

Mr Brown faces several immediate difficulties, however. The first is that the public spending totals which he inherits and has pledged not to exceed look almost impossibly tight. They allow for no real growth at all up to 1998-99.

This is much less than the

average growth rate of real public spending since 1979 of 2 per cent a year. Even if revenues look healthier, borrowing targets are highly vulnerable to overshoots in spending - especially under a government which has raised strong expectations for improvements in health and education.

Second, borrowing is too high for an economy well into the recovery phase. Under the golden rule, borrowing should probably be 1 per cent of GDP or less at this stage of the economic cycle. Under a European stability pact, it would need to be close to zero.

Third, the Bank of England will doubtless renew its warning against the dangers of inflationary pressure. The risk has been reduced for the time being by the continued rise of sterling. But the strong pound is already beginning to hit exports, and is likely to damage the balance of payments as well as the prospects for manufacturing.

The Bank had been urging a rise in interest rates to curb the growth of domestic demand. With luck, an increase in taxes might have a similar effect, while easing the pressure on interest rates and - perhaps - on sterling.

A new government pledged to reduce unemployment will not want to risk slowing economic growth by more than is absolutely necessary. A significant fiscal tightening is clearly indicated, however, and now is the ideal time to do it. The precise amount will depend partly on the Treasury's judgment, but mainly on Mr Brown's courage, though a structural tightening of about 1 per cent of GDP would seem ideal.

Eurobluff

Germany is overbanked. Its financial institutions are also inefficient by international standards. Yet the federal government is bent on perpetuating the unfair funding advantages enjoyed by public-sector banks while threatening to impose a capital penalty on private banks. An overdue consolidation in German banking could well be delayed as a result.

The saga began when the state of North-Rhine-Westphalia agreed to recapitalise WestLB, the largest of the Landesbanks, back in 1992. WestLB's privately owned competitors were incensed that it appeared to be receiving a competitive advantage for free. They went to the European Commission, arguing that WestLB had received state aid in breach of Article 92 of the Treaty of Rome.

Rightly so. The cost to the Landesbanks of their public interest function is small in relation to the benefit they gain from subsidised funding. The main credit rating agencies give them ratings of AAA or AA+. Yet the London-based agency IBCA estimates that without state guarantees, they would be rated A to AA. IBCA also puts a strong case that the whole system of guarantees infringes Article 92. Yet the Com-

mission has been slow to act. Part of the explanation is that an issue of competition policy has become unexpectedly linked to the fate of the European single currency. The German public banks have told the Commission that they may withdraw support for the euro if the ruling goes against them. This is significant because the publicly owned retail savings banks play a central role in persuading a reluctant German public to abandon its beloved D-Mark.

Blackmail from the public banks is accompanied by a threat to inflict on the private banks a capital penalty on good-will arising on acquisition. This would hit Deutsche Bank and Dresdner Bank, whose recent purchases of investment banks in London were made at substantial premiums to net assets. It would also slow the rationalisation of the domestic banking market.

If the birth of the single currency depends on such crude realpolitik, the German public might well ask whether the euro is worth having. It would be good to think that competition commissioner Mr Karel van Miert might call the German government's bluff - but probably a pious hope.



New Labour, new Europe

Britain's change of government is expected to lift the fog over negotiations on the future of the EU, says Lionel Barber

The new Labour government in Britain took a first, wary step towards Europe yesterday, declaring it is ready to sign the European Union's social chapter.

Labour's statement is more than a break with the Eurosceptic attitudes of its Conservative predecessors. It removes an important source of friction with European governments which saw the UK opt-out as a device to gain competitive advantage by refusing to adopt EU minimum social standards for workers.

Whether Labour's policy of "constructive engagement" with the EU amounts to more than Mr John Major's promise in 1990 to put Britain "at the heart of Europe" remains unclear. But the immediate impact of Labour's declaration is to give a fillip to the intergovernmental conference (IGC) on the future of the Union which is due to reach its climax at the Amsterdam summit in six weeks.

Originally, the IGC's task was to review the 1991 Maastricht treaty, signed in a mood of euphoria after the fall of the Berlin Wall. Maastricht was always an uneasy compromise between self-conscious defenders of the nation state, such as the UK and France, and nations such as Germany and the Benelux countries which harbour dreams of a deeper political union.

The treaty established a fixed timetable for economic and monetary union (Emu) by 1999 and extended the powers of the European parliament to block or amend EU laws. But it left matters of internal and external security subject to loose co-operation between national governments.

Maastricht barely secured ratification in Britain, Denmark and France. And a clause providing for a follow-up IGC to complete what one European Commission official calls "an unfinished symphony" threatens to reopen divisions over the treaty.

Impetus for further institutional reform has emerged through the EU's commitment to enlarge the Union to former communist countries of central and

eastern Europe, most likely early in the next century. At least 11 countries are queuing to join the 15-member Union - creating irresistible pressure to reform EU institutions and decision-making.

Or so the argument goes. In the run-up to the Amsterdam summit, the main question is whether EU leaders accept the thesis of the "impossible status quo" or they put off tough choices.

"We are entering the endgame," says a Dutch diplomat. "But we still do not know the level of ambition which the leaders are ready to pursue."

Since the IGC's ceremonial launch 15 months ago in a refurbished car factory in Turin, the pace of negotiations has been glacial. Most blame an intransigent British Conservative government with an ideological antipathy towards greater integration which has grown under pressure from a tiny group of Tory Eurosceptics exploiting Mr Major's vanishing Commons majority.

Mr Blair's landslide election victory fundamentally alters the dynamic of the negotiations for Maastricht II. Labour's willingness to countenance a limited extension of majority voting in EU decision-making provides scope for horse-trading.

All those countries which have been hiding behind the British will have to show their hands," says a senior Spanish diplomat. "Now we are going to have some fun."

The first signs of movement will appear in the next three weeks. The Dutch presidency is due to unveil a draft treaty text ahead of a European summit in the coastal town of Noordwijk on May 23, where Mr Tony Blair, the British prime minister, will make his official EU debut.

The smart money says Maastricht II will be far more modest than Maastricht I. But the devil lies in the detail of the treaty. There are several benchmarks for assessing how far EU leaders are ready to stretch their ambitions.

The first test is the embryonic common foreign and security policy which should better reflect the EU's economic power on the

world stage. The latest proposals are little more than tinkering: a new policy-planning department in Brussels and a new "face" to represent the EU.

Far from moving toward a federal superstate, big European countries are increasingly going their own way on foreign policy. The failure of France, Germany, Spain and Italy to support a six-year-old EU position criticising China's human rights record confirms the trend. So does Britain and Germany's refusal to join the stabilisation force in Albania led by Italy and France.

The same fissures are apparent in the Franco-German proposal for a phased merger of the EU and its fledgling defence arm, the Western European Union. Ten countries subscribe to the idea, but Britain and the four "neutrals" - Austria, Finland, Ireland and Sweden - oppose the goal of turning the EU into an instrument of collective security rivaling the Nato alliance. For this reason, say insiders, the Paris-Bonn plan is dead.

The second test for the inter-governmental conference is whether member states are ready to support an extension of EU powers in areas such as asylum, visas and home affairs. Here the picture is blurred.

Most countries see co-operation as the most effective means of tackling organised crime and illegal immigration - both of which exploit the freedom of movement inside the EU's internal market.

These countries, led by Germany, also want to introduce majority voting on such matters and extend the role of the Commission and the European Court of Justice. The idea is to unblock the impasse in decision-making and strengthen democratic accountability.

The new Labour government is as wary as its Conservative predecessor of moving away from the Maastricht I model which rests on loose co-operation between national governments on matters of internal security. It

fears losing control over British borders which, for an island nation, are relatively easy to police.

The prospective compromise is to allow Britain (and Ireland, which enjoys a common travel area with the UK) some form of extended opt-out. This would leave frontier controls intact, while allowing other member states to forge ahead with their growing co-operation under the Schengen accord, which would be incorporated into the new treaty.

This model of "flexible integration" could be adopted in other areas, subject to strict rules and supervision from the European Commission. The idea, pushed by the French and Germans, is to avoid being held back by the slowest ship in the EU convoy.

The new British government is not alone in voicing suspicions about calls for a general "flexibility clause" in the new treaty. The Italians and Spanish are nervous that it could be used by rich northerners to create their own elite club around membership of the future single currency zone.

Thus, the degree to which flexibility develops will depend on how far Britain and others are willing to soften the national veto, says one IGC negotiator.

The trade-off for Britain is a redistribution of voting power in the Council of Ministers towards the larger member states. This is essential, not only because eastern enlargement involves mainly small countries but also because the disproportionate power wielded by less populous countries raises questions of democracy and legitimacy.

Thus, in the original six EU member states, decisions could go ahead only with the support of countries representing 70 per cent of the total population. Today, the figure has fallen below 60 per cent. In a Union of 26 countries, a qualified majority could outvote France, Germany, Spain and the UK. "This is simply not viable," says a Scandinavian ambassador.

The most likely compromise is a "double majority", whereby decisions require the support of more than half the member

states which also represent at least 60 per cent of the total EU population. But the small countries will expect preservation of their right to an individual EU Commissioner in Brussels.

The Dutch, Finns and Luxembourgers have threatened to block the IGC unless they get their way - and their blackmail looks like paying off. Big countries are likely to lose one of their two EU Commissioners, while the present ceiling of 20 Commissioners would remain. This would allow the first phase of enlargement of up to five new members to go ahead without revisiting the issue.

France argues such a deal implicitly violates the principle of an independent European Commission and undermines the goal of improving efficiency in EU institutions. The problem, says one official, is the lack of trust between members which itself is the most powerful brake on deeper political integration.

Chancellor Helmut Kohl of Germany, the driving force behind an ever closer European Union, recognised the limits of change when he spoke recently of a need for a "Maastricht III, IV and V". But the prospect of yet another constitutional debate is not one which member states such as France and the Scandinavian countries look forward to - especially if they had to put the results to a referendum. This may be the greatest incentive to strike a decent deal in Amsterdam in mid-June or early July.

Yet Mr Kohl's words carry a deeper meaning. He is warning the German public that his old promise of European political union in exchange for European monetary union no longer holds, says a German diplomat. From the point of view of Britain's new government, this means Maastricht II ought to be manageable. The bad news is that Mr Kohl is more determined than ever that Emu goes ahead on time. Mr Blair has bought himself much goodwill with yesterday's initiative but on the issue that matters most - monetary union - Labour is offering no more than an open mind.

OBSERVER

Mafia man for Mexico

Few ambassadors can be looking forward to ending their tour of duty as much as James Jones, the harried US envoy to Mexico.

The former Oklahoma lawyer, congressman and chairman of the American Stock Exchange was rewarded with the Mexico job four years ago after championing the struggle to bring Mexico into the North American Free Trade Area. He's on his toes this week during President Bill Clinton's first official visit to the country.

But instead of overseeing the growth of trade and investment between the two neighbours, Jones has more often found himself dealing with political assassinations, dramatic devaluations and Mexico's entanglement with drug cartels. When the US Congress almost struck off Mexico from the roster of US allies in the war against drugs this year, Jones bore the brunt of the anti-gringo sentiment that swept Mexico. The exhausted ambassador, who can barely speak Spanish, admitted the annual US certification process was "unhelpful".

His replacement William Weld, the popular Republican governor

of Massachusetts, became famous in the early 1990s for his merciless persecution of the Boston Mafia. During a stint as state attorney-general, he won 109 out of the 111 cases he brought against the Mafia on charges of political corruption and money laundering. Perhaps Weld will be able to teach the Mexicans a thing or two about law enforcement when he heads down Mexico way.

Digging in

The one former British Conservative minister still in government was giving little away yesterday about his post-election plans. Chris Patten, who has seven weeks left to run Hong Kong and has often been touted as a possible Tory leader-in-waiting, insists that he still intends to retire with family and dogs to France for six months. With a book about Asia on the cards, he's already thumbing up with two articles on gardening. One is on dry gardens - a somewhat surprising choice given the lush, sub-tropical vegetation of Hong Kong's Government House - for the Royal Horticultural Society. The other has been commissioned by a French magazine.

And just in case anyone thinks the Francophile Patten, instead of eying up Downing Street, might now harbour secret

ambitions to become an EU Commissioner, he's quick to point out that the magazine article is written in "absolutely untranslatable English". That should keep the Tory Eurosceptics happy.

Monopoly money

Pavlo Lazarenko and United Energy Systems are often spoken of in the same sentence. The allegation that Ukraine's prime minister owns the country's largest private company has been made so often that few in Ukraine question it today.

Why else, the cynics ask, would the government have created a monopoly on gas trade that keeps prices artificially high, leaves many industries in the red and gives UES phenomenal profits each year? The company claims its revenues are \$10bn (in a \$50bn economy) while critics say Lazarenko's personal fortune could run into several hundred million dollars. The man himself dismisses all the charges as "groundless".

But Ukraine's reputation for rampant corruption is now hurting its once friendly relations with the west. Uncomfortable questions are being asked. Some congressmen on Capitol Hill want Ukraine's status as the third-largest

recipient of US assistance in the world reconsidered.

So Washington-based Edelman Public Relations has been brought in to touch up Ukraine's image. It has organised Lazarenko's press conference today at which he'll answer questions head on before the western media. And who exactly is footing Edelman's bill? None other than UES.

False note

It seems Ireland's lengthy love affair with the Kennedy clan has finally come to an end. A musical extravaganza called JFK, featuring the life and times of the former president, has bombed in Dublin. JFK - believed to have cost its American backers \$1m - had its world premiere in the Irish capital two weeks ago. It was to have played locally until early June, before transferring to London's West End and Broadway. Now the show has closed. "The making of a few bob aside, it is difficult to know just what the creators of JFK may have had in mind," said the theatre critic of the Irish Times. The show's producers said one of the reasons they opened the show in Dublin was because of the widespread admiration in Ireland for the Kennedys as an Irish-American family. Or not.

Financial Times

100 years ago

Mustaches And Beards From Reading, Pennsylvania, comes the news that the superintendent of the Reading and South-Western Street Railway recently issued orders to all employees that they must dispense with their mustaches and beards. There is something in that date which suggests that the cruel edict is really a sample of Yankee humour. But if not, we want to know the views of the labour leaders of Great Britain on this vital point. The tyranny of capital has never been carried out to such an extreme in this country.

50 years ago

Germany From Bad To Worse The German economic position is still going from bad to worse. The continuing deterioration cannot be attributed only to the severity of the past winter with its consequent breakdowns in the already chaotic transport system, the cuts in electricity and reductions in coal consignments to the factories. The causes are more permanent than the weather, and unless they are removed the money which the British are now spending will be so much more down the German drain.

Germans remain sceptical about single currency

Euro trial-run fails to impress Berliners

By Frederick Stüdemann in Berlin

Ms Christel Blumener has seen it all before. Seven years ago the east German office worker saw the total in her bank balance halve as soft Ostmarks were converted into hard D-Marks.

Yesterday a few of those D-Marks were again halved when she exchanged them for euros at a rate of two D-Marks per euro as part of a test-run promoted by the European Commission. The aim was to persuade a sceptical German public of the virtues of a single European currency. In spite of a public information campaign, opinion polls say two-thirds of Germans oppose a single currency.

The specially minted euros Ms Blumener bought at an exchange booth in Berlin's Alexanderplatz are little more than shiny bits of metal stamped with images of the Brandenburg Gate and a map

of Europe. They are not permanent legal tender. Soon they will be as valuable as the Ostmark coins Ms Blumener keeps at home as souvenirs. But for this week at least the euros have limited purchasing power in shops and restaurants in the main retail centres of Berlin.

The euros are the centrepiece of a public relations exercise backed by the city of Berlin and the federal government. The project is organised by Landesbank Berlin which oversaw the minting of 1.5m euro coins. A further 15,750 collectors' euros in gold and silver are also on sale.

The bank said the collectors' coins had almost sold out and about 400,000 of the plain euros were bought on Friday when they went on sale.

Bank officials acknowledge that many of those buying are doing so simply to collect the historic coins. "There has been a lot of interest with people taking

away brochures," says the sales assistant at the euro stand in the Kaufhof department store. But actual sales in euros have been unimpressive.

A father and daughter waiting to buy a thermos flask - priced at 10 euros or DM20 (\$11.60) - looked perplexed when asked whether they would pay in D-Marks or euros. "Euro? What's that? Where do I get it?" asks the father, a retired railwayman.

Asked what he thinks of a single currency, he says: "If they bring it in, then I'll move to England!" He further believes that there should be more explanation of the euro.

For the government such views are frustrating. Those overseeing the experiment acknowledge that German monetary union, in which Ostmarks were exchanged at two for one D-mark, may have produced scepticism in the east. "On paper people saw they had less than before," says one bank manager.

Delight in Brussels as Britain turns on the charm

By Lionel Barber and Neil Buckley in Brussels

The Labour government yesterday mounted a charm offensive on its European Union partners, declaring that Europe was an "opportunity not a threat" for Britain.

Labour's new co-operative policy - highlighted by a declaration that it will shortly sign the EU's Social Chapter - delighted negotiators at the intergovernmental conference in Brussels.

"The UK is coming from the enter edges into the mainstream of the European debate," said one EU diplomat. Mr Michel Barnier, France's minister for European affairs, said the UK government's more constructive attitude increased the chances of completing the IGC negotiations by next month's Amsterdam summit. "We hope that there will be a change in the climate," he said. "We think the negotiations needed this new climate."

Mr Doug Henderson, Britain's new minister for European affairs, told his counterparts it was time to draw a line under the recent past when previous Conservative governments had been at loggerheads with the EU.

"We want to work with you as colleagues in a shared enterprise," he said.

Ministers and negotiators from other countries reportedly "beamed" as Mr Henderson outlined Britain's more flexible negotiating stance.

Labour backs a limited extension of majority voting to allow the union to adapt its decision-making ahead of enlargement to central and eastern Europe. It also supports giving the European Parliament more powers of co-decision where majority voting applies, such as in single market legislation.

The centrepiece of yesterday's presentation was an announcement that Britain will end more than five years of isolation on EU social policy. This goes back to 1991 when the Conservative government insisted on an opt-out from the Social Chapter in the Maastricht treaty.

The European Commission said it was examining ways of bringing Britain fully into the chapter without waiting for ratification of the Maastricht 2 treaty.

Mr Barnier warned that tough bargaining lay ahead, pointing to British opposition to Franco-German proposals for a phased merger of the EU and the Western European Union, its defence arm.

Europe round-up, Page 3
Dutch press Blair, Page 9
First, wary step, Page 15

THE LEX COLUMN

Gold dust

The Bre-X debacle was a piece of news which the gold mining industry, already on its knees with a rock-bottom bullion price, could have done without. The pain is not shared equally. Apart from private investors, the worst losers are the Canadian juniors, the small exploration companies that have spearheaded an unprecedented global gold rush in recent years. Already they are finding it harder to raise capital, and their costs will be increased in future by demands for more convincing proof that deposits actually exist. Exploration will not cease - the majors will step into the breach. But they are more risk averse, and the cutting edge of the exploration effort will be blunted.

Meanwhile, regulators should avoid any precipitate response. Markets will do much of their work for them - the big rise in risk premiums on juniors will serve to warn uninitiated investors. And speculative projects will find it much more difficult to attract finance. Clearly some tough questions should be asked about disclosure and corporate governance. For a company of stock prominence, too little was asked of, or known about, the deposit. However, in an affair in which most of the world's professional mining community was duped, it is not clear that extra protection would have helped the private investor. In any event, those who chase after high rewards can hardly complain when they are sometimes asked to pay the price.

Conglomerates

There are traitors in the UK's conglomerates sector. After six years of consistently dramatic under-performance, diversified industrials are keen to defect to other sectors. Charter and BTR are would-be engineers, Williams would prefer to be in support services and Crook would like to be anything else. But while it is convenient for managements to blame share price slumps on stock market fashion, it goes against the grain of efficient market theory. Are investors stupid enough to think Williams becomes more valuable if it is in the same sector as Rentokil? After all, nearly 80 per cent of its profits come from manufacturing, not services.

Precedent provides some small support to the theory. Morgan Crucible became a building materials company in late 1993 and was rewarded. And profit set-backs at conglomerates have been disproportionately punished against, say, the engineering sector. Clearly, fund managers find it harder to be bullish about conglomerates, and sector analysts have been ground down by years of disappointment.

But the fact is that British industrial conglomerates - to be distinguished from the likes of Granada - have failed to create value. The sector's big acquisitions of the 1990s like Consolidated Goldfields, RHM and Hawker Siddeley did not benefit shareholders. And while there is a role for certain types of conglomerate - a restructuring-led business like a Kohlberg Kravis Roberts - portfolio diversity is no justification for a business. Tougher accounting rules have also revealed how difficult it is to create value through deals. While some short-term buying opportunities will present themselves, conglomerate shares have done badly primarily because managements failed to adjust to a changing business climate. Sector reclassification is not the obvious solution.



It may be that the ultra-competitive state of the US economy prevents this spilling over into significant inflationary pressure. But there is little to dissuade the Federal Reserve from erring on the side of caution. With more monetary tightening on the cards, US 10-year bond rates look set to rise towards 7 1/2-7 3/4 per cent later this year.

What of Germany? The economy may be picking up, but there is no sign of inflation. Add to this the high rate of unemployment, and there is little chance of German short rates rising any time soon. Bond yields may creep up above 6 per cent, but the odds favour a widening of the treasury-bund spread to over 180 basis points later this year. Convergent growth rates will eventually close the gap, but that still looks like next year's story. Meanwhile, a widening interest rate differential leaves the dollar looking well supported.

Eurotunnel

One of the more ticklish problems for Britain's new government will be Eurotunnel's latest plea for an extension to its concession. The case for such a free gift is shaky. If Mr Tony Blair has any backbone, he will ignore the request.

But what if he were tempted to agree a bail-out? After all, the French government is keen to tender to Eurotunnel's many unhappy shareholders. And Labour might want to curry favour with the French. But even then, it is doubtful that handing Eurotunnel a free extension is the right way of proceeding. After all, this would mean taxpayers giving up an asset whose value is considerable, if opaque. And by and large, governments should know what they are worth.

So here is a modest proposal. Rather than quickly handing rights over the tunnel's future revenues to Eurotunnel, why not put them up for auction? Or float them, suitably securitised, on the stock exchange? Then, if the two governments really want to bail the tunnel out, Eurotunnel could be given the proceeds.

That might seem a roundabout means to much the same end. But a transparent process, open to all bidders, would establish a credible price for the asset. That way, taxpayers could see what their governments' generosity was costing them. Even better, they might be prompted to question whether it was a good use of the cash.

Treasury/bund spread

Investors should not be deceived by the tumble in US bond yields. The treasury-bund spread, recently as wide as 119 basis points, is down to 103. Traders have fastened on to benign economic data as an excuse for interest rates staying unchanged. They are likely to be disappointed. The medium term outlook for bonds is bleak: the International Monetary Fund forecasts world growth of 4.4 per cent this year, the fastest for a decade, while the OECD's leading indicator for US growth is pointing up again.

US presses Zaire rebel chief to avert Kinshasa bloodbath

By Michaela Wrong in Kinshasa

The US yesterday stepped up diplomatic pressure on Mr Laurent Kabila to engineer a peaceful entry into Kinshasa as the rebel leader claimed his troops had moved within striking distance of the capital's international airport.

In a flurry of last-minute diplomacy triggered by the failure of peace talks at the weekend between Mr Kabila and President Mobutu Sese Seko, a US envoy flew to the rebel-held southern city of Lubumbashi to deliver a message from President Bill Clinton.

"The objective of my urgent mission is to prepare a soft landing for Mr Kabila's rebels when they reach Kinshasa, a landing that avoids bloodshed and chaos," said Mr Bill Rich-

ardson, US ambassador to the United Nations.

His latest bout of shuttle diplomacy also involved meetings with Ugandan president Yoweri Museveni and Rwandan vice-president Paul Kagame, the two regional leaders with most influence over Mr Kabila.

It was not clear what assurances Washington was seeking from the Alliance of Democratic Forces for the Liberation of Congo (AFDL), which says it will be ready to enter Kinshasa's suburbs within two or three days.

But the fact that US efforts to avert a bloodbath in the city of 6m inhabitants are focusing on the AFDL suggests Washington has accepted Mr Mobutu is not open to persuasion.

The 66-year-old president's agreement to meet Mr Kabila

aboard a South African warship had fuelled hope that a peaceful handover could be negotiated. But Mr Mobutu offered only to cede control to a president elected in polls organised by an interim authority, indicating he planned to rule during what is certain to be a lengthy transition process.

"Mobutu blew it," said a diplomat. "It was his last chance to negotiate a dignified departure and he spurned it." Mr Mobutu's delegation flew back to Kinshasa from Congo yesterday, but there was no public sighting of the president, said to be resting at his villa.

Sunday's disappointing outcome, which raises the prospect of a battle between the AFDL and Mr Mobutu's presidential guard, has heightened tension in the capital.

Market punishes HPI over Marzotto deal

Continued from Page 1

late Mr Raul Gardini, Mediobanca and the other members of the salotto buono thought they had finally resolved the future of their Genoa industrial and financial interests.

However, the Marzotto family including Count Pietro Marzotto, who was due to become the executive chairman of the new merged company if the deal had gone through, had become increas-

ingly worried in recent weeks over the industrial and financial implications.

It would have left Marzotto as the second largest shareholder with a 12.4 per cent stake after Fiat with 17.3 per cent. Mediobanca would have held a 10.5 per cent stake.

In the short joint statement announcing the merger's failure, the two parties referred to "irrevocable differences" on how to structure and manage the new conglomerate.

SAP probe

Continued from Page 1

news of the insider dealing probe before recovering to end DM3.10 higher at DM24.50 on a day which saw the whole market reach a new record.

The company said it was keen that the suspicions of insider trading should be cleared as soon as possible and was co-operating fully with the authorities.

It has provided information about senior employees' telephone calls to help the authorities.

FT WEATHER GUIDE

Europe today

A north-westerly wind will push unseasonably cool air towards the UK, western France and the Benelux. In this chilly air mass, showers will develop, some with hail or thunder.

A cold front over northern Italy and Poland will mark the boundary, with warm air to the east. Along the front there will be widespread rain, especially in the southern Alps, and some thunder.

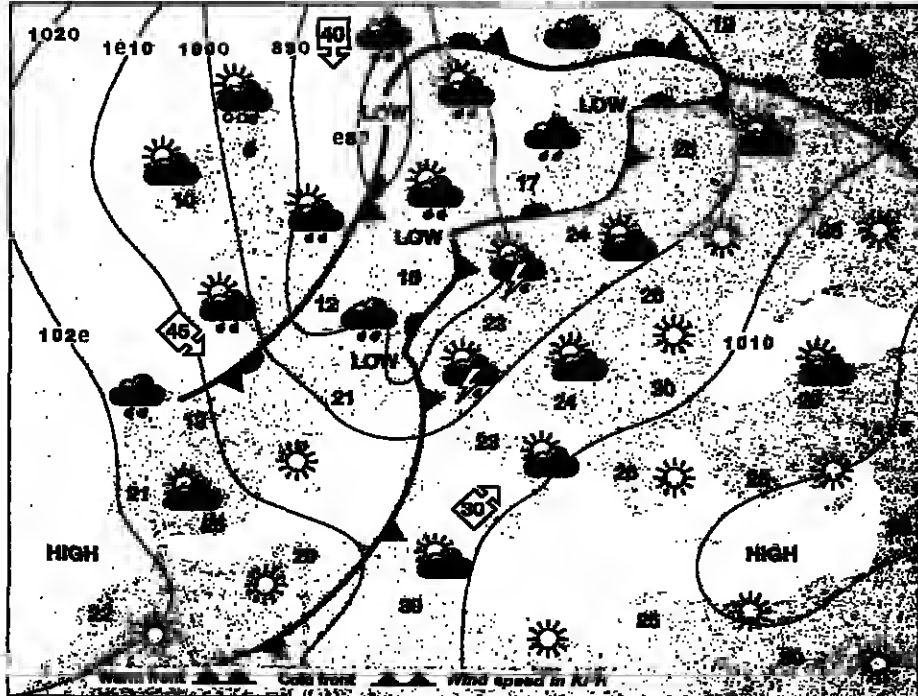
Most of southern Europe will be sunny with temperatures up to 30C in the south east.

Five-day forecast

Cool air will persist over western and central Europe and this will give way to more unsettled conditions.

West to north-westerly winds will push unseasonably cool air into the Iberian peninsula.

South-east Europe will continue warm and sunny, before thunder showers bring some cooler air on Thursday and Friday.



TODAY'S TEMPERATURES

Location	Temp	Location	Temp	Location	Temp	Location	Temp
Madrid	sun 33	Paris	sun 25	London	sun 21	Amsterdam	sun 21
Berlin	sun 21	Rome	sun 25	Brussels	sun 21	Frankfurt	sun 21
Stockholm	sun 21	Vienna	sun 21	Zurich	sun 21	Munich	sun 21
Warsaw	sun 21	Budapest	sun 21	Prague	sun 21	Bratislava	sun 21
Sofia	sun 21	Belgrade	sun 21	Belm	sun 21	Podgorica	sun 21
Thessalonika	sun 21	Atena	sun 21	Corfu	sun 21	Mykonos	sun 21
Crete	sun 21	Patmos	sun 21	Mykonos	sun 21	Mykonos	sun 21
Mykonos	sun 21	Mykonos	sun 21	Mykonos	sun 21	Mykonos	sun 21

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COMPANIES & MARKETS

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IN BRIEF

Andersen urges non-US partner

The board of Andersen Worldwide, the New York-based umbrella organisation for the world's largest professional services group, has urged partners to appoint its first non-US managing partner and chief executive. Page 18

Hoechst profits beneath expectations
Hoechst, the world's largest drugs and chemicals group, posted pre-tax profits of DM631m (\$480.8m) in the first quarter, 9 per cent up on last year, but below expectations. Page 18

VW shares higher on overseas demand
Shares in Volkswagen, Europe's biggest carmaker, surged after the German group said strong foreign demand and a more favourable exchange rate helped lift pre-tax profits 48 per cent in the first quarter. Page 20

Northrop Grumman acquires Logicon
Northrop Grumman, the US aerospace group, is to acquire Logicon, a defence information technology specialist based in California in an agreed stock-swap deal. Page 20

Shell pressed over 'green' standards
Two leading environmental and human rights organisations have come out in favour of a shareholder-sponsored resolution calling for Royal Dutch/Shell to introduce rigorous standards for measuring its environmental and human rights policies - including independent external audits. Page 24

Regent Pacific share set at HK\$2.62
Regent Pacific, the emerging markets investment house, priced its HK\$447m (US\$57.7m) Hong Kong stock market flotation at HK\$2.62 a share. Page 21

Proton to be 'independent' by 2000
Proton, the Malaysian "national" carmaker set up with technical assistance from Mitsubishi Motors, of Japan, should be able to build its first independently developed vehicle before the end of the century. Page 21

BIB goes digital and interactive
British Interactive Broadcasting, the £700m (\$1.18bn) company to be launched tomorrow to offer home shopping and banking on digital satellite television, also plans to provide interactive services on digital terrestrial TV. Page 24

Whitbread plans to sell 400 pubs
Whitbread, the brewing and leisure group, intends to sell many of its underperforming pubs and off-licences as part of an effort to improve its return on capital. The group has drawn up plans to dispose of about 400 of its 3,700 pubs. Page 24

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Chief price changes yesterday

FRANKFURT (DAX)		FUTURES	
Alcatel	345.5 + 11.5	Oil	52 - 1.3
Boosey & Hawkes	132.2 + 4.5	Oil	10.9 - 2.4
BSA Pl	619 + 16	Scrap metal	1.21 - 1.09
S&P Carbon	248.9 + 8.8	PAES (PPF)	
Volkswagen	1159 + 41	Rice	
Wolfs	455 - 15	Accor	879 + 24
NEW YORK (S&P)		STAG	
Alcatel	256 + 24	Oil	52 - 1.3
Boosey & Hawkes	387 + 39	Oil	10.9 - 2.4
BSA Pl	103 + 19	Scrap metal	1.21 - 1.09
S&P Carbon	248.9 + 8.8	PAES (PPF)	
Volkswagen	1159 + 41	Rice	
Wolfs	455 - 15	Accor	879 + 24
TORONTO (S&P)		STAG	
Alcatel	34 + 4	Oil	52 - 1.3
Boosey & Hawkes	23.00 + 17.55	Oil	10.9 - 2.4
S&P Carbon	32.25 + 4.00	Scrap metal	1.21 - 1.09

Bangkok, London and Tokyo closed. New York and Toronto prices at 12:30.

Paper groups to merge in \$3.4bn deal

James River and Fort Howard to form world's second largest tissue manufacturer

By Richard Tomkins
in New York

James River and Fort Howard, two of the biggest companies in the US paper industry, yesterday announced they were merging in a \$3.4bn deal that will create a new company called Fort James.

It is the first big merger in the paper industry since Kimberly-Clark took over Scott Paper in 1995, and will reinforce James River's position as the world's biggest tissue maker after Kimberly-Clark.

The deal prompted speculation that it could presage a bout of consolidation in the US paper industry, which is suffering from overcapacity, and paper company stocks rose sharply on the New York Stock Exchange.

James River and Fort Howard portrayed the deal as a merger of equals, but it is structured as a takeover by James River, the larger of the two. In effect, Fort Howard's shareholders will receive 1.75 James River shares for each share they own, and all the

James River shares will be renamed Fort James.

James River's share price was up 4% at \$31 1/4 in early trading yesterday, valuing Fort Howard at just under \$43. Fort Howard's shares jumped 4%, or 11 per cent, to \$40.

Fort Howard and James River are both big manufacturers of tissue products, but the latter is bigger in consumer products, while the former is mainly in the commercial and industrial market.

Last year James River made net profits of \$99m on revenues of \$5.7bn. Its US brands include Quilted Northern bath-

room tissue, Brwmy paper towels, Vanity Fair napkins and Dixie cups and plates. In Europe, where it has manufacturing capacity in 10 countries, it makes the Lotus range of tissue products.

Fort Howard made net profits of \$163m on revenues of \$1.6bn last year, including unusual items. It has three plants in the US, one in the UK and a joint venture in China. Its brands include Mardi Gras, Soft 'N' Gentle and Green For-

est. It is also a big supplier of private label products.

The companies said the merger should yield cost savings of at least \$150m next year, rising to more than \$300m. These would come from eliminating overlapping functions, maximising the use of manufacturing capacity, sharing best practices and better purchasing efficiencies.

Mr Miles Marsh, chairman and chief executive of James River, said the new company would benefit from the combination of James River's strong

brands and marketing skills with Fort Howard's low-cost manufacturing base and leadership in commercial products.

"It is truly a merger of equals that are better off together than they are apart," said Mr Marsh, who will become chairman and chief executive of the new company.

The deal has been approved by Morgan Stanley, the US investment bank, and other shareholders which control about 20 per cent of Fort Howard's stock, following a leveraged buy-out in the 1980s.

Moscow to issue first Russian municipal eurobond

By Edward Luce in London
and John Thornhill in Moscow

The City of Moscow is to launch Russia's first non-sovereign bond in the international capital markets later this month.

The Moscow eurobond issue, totalling between \$300m and \$500m, is expected to be issued within the next 20 days, according to bond analysts in London.

The offering, which will have a maturity of between three and five years, follows the success of the Russian government's debut eurobond last October. The \$1bn issue - Russia's first international bond offering since 1917 - was followed by the country's first D-Mark denominated offering earlier this year.

The City of Moscow, the first in a series of Russian municipalities planning to issue dollar bonds overseas, was recently awarded a credit rating of BB minus by Standard & Poor's, the US rating agency. S&P said Moscow's rating had been "constrained" by the Russian Federation's "debt ceiling" of BB minus.

This implies that Moscow's rating will rise in tandem with that of Russia. "The Moscow eurobond will probably perform better than the Russian eurodollar bond," said one debt analyst in London. "Moscow has a much healthier budget situation than the Russian government and other large cities like St Petersburg."

The Moscow bond, which will be lead-managed by Credit Suisse First Boston and Nomura Securities of Japan, is expected to become a benchmark for other Russian municipal eurobond offerings.

Moscow, one of the few Russian cities with a budget surplus, hopes to reduce the cost of its debt with the eurobond issue. Domestic ruble bonds have an annualised yield of more than 20 per cent, compared with about 9 per cent on Russia's overseas debt.

Mr Andrei Kozlov, a deputy chairman of Russia's Central Bank, said the issuance of eurobonds by municipal authorities would help attract foreign investors.

He added that the federal government would want to coordinate the timetable for such capital-raising exercises, suggesting the rate of issuance may be slower than some foreign investment banks have been predicting.

"I do not expect a flood of new issuance," he said. "So far, only Moscow, St Petersburg and Nizhny Novgorod have been authorised by presidential decree to issue eurobonds, and other regions will have to produce detailed financial information and other documents."

London and Chicago's futures markets start sharing contracts on Friday

Rivals unite in a marriage of convenience

By Laurie Morse in Chicago
and Samer Iskandar in London

Futures markets could see the start of a new era on Friday when an unusual co-operation between competing futures markets in the US and the UK begins.

When the opening bell rings at the London International Financial Futures and Options Exchange (LIFFE) on Friday morning, traders there will have first crack at determining the day's price for US Treasury bond futures, while Chicago traders and New York securities dealers are still asleep.

Later in the day, as London closes, LIFFE dealers will not only hand over trading in T-bond futures to Chicago, but traders at the Chicago Board of Trade will deal Germany's 10-year Bund futures and options for the first time.

Why are the world's two largest futures exchanges, often rivals, sharing their biggest contracts? Both hope the exposure of their prime products in another time zone will generate new business. Fees generated by Bund trading in Chicago will flow back to London, while income from US T-bond trades at LIFFE will be paid to the CBOT.

Since these will be after-hours markets, the windfall will not be large.

"We'll consider it a smash-

ing success if 10,000 Bund futures and options contracts are traded each day in Chicago," said Mr David Nuelle, managing director of the Chicago-based options specialist Helios Trading Group. That compares with about 200,000 lots traded in London.

Still, the link is important. Volume in fixed-income products in the US has been flat for more than a year, leaving traders hungry for new ways to make money. London, in contrast, is booming. However, with European exchanges locked in competition for dominance after the currency convergence in 1999, LIFFE has little to lose in reaching for market share overseas.

Similar links between the Chicago Mercantile Exchange and the London and Paris futures exchanges are planned, and their prospects will be determined by the CBOT/LIFFE alliance. Success would also mean that the CBOT and LIFFE would go forward with plans to share Italian lira and US Treasury note futures.

Links between derivatives exchanges have been proposed for years, but only one, an off-set agreement between the CME and the Singapore International Monetary Exchange, has operated successfully over the long term.

LIFFE officials hope Chicago's excitement about the Bund



Traders on the LIFFE floor in London have little to lose by seeking market share abroad. Picture: Reuters

LIFFE said it had enjoyed its busiest April on record, with 16,02m contracts traded, up 45 per cent on the same month in 1996. Both Euroswiss and

Eurofira futures contracts set monthly trading records. In the first four months of 1997, LIFFE volume was 16 per cent ahead year-on-year.

contract will spill over to US investors, whose interest in internationalising their portfolios is growing. Preparations for Ecu are a favourable factor in this.

"The Bund contract is seen as the future euro benchmark," said a trader at a large continental European bank. "Trading Bunds in Chicago is perceived as having a foot in the door of what is going to

become one of the largest bond markets in the world."

LIFFE's enthusiasm about having US Treasury bond futures on its trading floor has dampened recently, following a decision by the CBOT to keep its after-hours computer trading system open during London hours. This will force LIFFE's T-bond pit traders to compete with a machine that

logged a record 235,000 after-hours T-bond futures and options trades last month. While London should garner volume in US Treasury options on opening day, few dealers are expected to shift orders off the computer.

If Bund orders flow into Chicago on Friday, LIFFE will be the biggest beneficiary, cementing London's position as the world's financial centre.

Chicago's traders will also benefit. "This is a great opportunity," said Mr Nuelle. "We have a lot of young kids looking for a successful new product, and who are willing to take the risk to try and make it work."

Legal dispute on DNA chip patents

By Roger Taylor

A US biotechnology company is challenging Oxford University in a legal wrangle over ownership of one of the most powerful medical innovations of recent years.

The issue is who invented the DNA chip - a device for rapidly analysing human genetic make-up using silicon chips containing bits of DNA.

Potential revenues from the new chip are large, as experts predict it will form a key platform for future research. It has the potential to uncover connections between genes and disease, diagnose people's susceptibility to different illnesses and devise new therapies.

Affymetrix, a US biotechnology company 34 per cent owned by Glaxo Wellcome, is one of the leading developers of the new technology.

The loss-making company, which has a market value of over \$600m, has already begun marketing chip products in the

US. However, plans to expand into Europe have met an obstacle in the form of Professor Ed Southern of Oxford University, who claims to have invented DNA chips and has a Europe-wide patent.

The patent is currently assigned to the University, which has agreed to assign it to Oxford Gene Technology, a newly-formed biotechnology company owned by Professor Southern and the University.

Several companies, including Roche of Switzerland and Abbott Laboratories in the US as well as Affymetrix have registered objections to the patent.

However, it could take years to make a decision, and in the meantime Professor Southern's patent stands.

To overcome this obstacle, Affymetrix has now begun discussions with the professor to agree a licensing deal. The company said: "We greatly respect Professor Southern and hope to be able to settle this amicably."

US data strengthen markets

By Philip Coggan
and Edward Luce

European financial markets strengthened yesterday because economic data from the US on Friday reduced fears that the Federal Reserve was about to raise interest rates.

Six bourses recorded all-time highs, including Zurich where the Swiss Market Index closed above the 5,000 level. The Frankfurt market was particularly strong, with the DAX index rising 2.1 per cent in post-bourse trading to a closing peak of 3,558.88. Amsterdam, Brussels, Lisbon and Madrid also set records.

Another strong start on Wall Street helped sentiment with the Dow Jones Industrial Average looking, in early trading, as if it might top its all-time peak of 7,085. At 1pm New York time, the Dow was 10.03 points higher at 7,081.23.

Weaker-than-expected non-farm payroll numbers on Friday had reduced inflation and interest rate concerns and helped the Dow jump 94 points. The continued strength

of the dollar, which benefits European exporters, supported equity markets.

European bond markets rallied partly because most markets had been closed on Friday for a public holiday. German 10-year bund futures gained 0.18 to close at 101.76 in Frankfurt. French, Italian and Spanish government bonds drew strength from the US statistics, although trading was thin due to a UK public holiday.

US treasury bonds lost ground in a technical correction after last week's gains.

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COMPANIES AND FINANCE: INTERNATIONAL

Hoechst warns on impact of shake-up

By Graham Bowley
in Frankfurt

Hoechst, the world's largest drugs and chemicals group, posted profits before tax of DM831m (\$480.8m) in the first quarter, 9 per cent above last year's level but below market expectations.

The German group warned that its radical restructuring, under which it is spinning off its specialty chemicals, plastics and diagnostics divisions, meant sales and profits in 1997 would be lower than last year.

Hoechst predicted sales of

DM42bn-DM47bn this year, down from DM50.93bn in 1996. It forecast a drop in operating profits but remained upbeat about net profits after adjusting for reorganisation.

"On a comparable basis, we expect earnings from operating business to increase as a result of lively demand, price increases in the industrial sector and positive exchange rate effects," it said.

Hoechst shares, which have underperformed since the company controversially abandoned plans earlier this year to seek a separate listing for its pharmaceuticals business, lagged behind the market

again yesterday. They closed flat at DM66.78, against a rising market. "Hoechst is a company in transition which is fighting battles on many fronts," said Mr Andreas Schmidt, analyst at BZW in Frankfurt. He said that the group's pharmaceuticals and life sciences divisions were doing better than expected, but its chemicals unit was disappointing.

Hoechst adjusted the first-quarter earnings figures to reflect restructuring costs of DM195m, compared with DM85m in the same quarter last year.

Last year's figures were also bolstered by the sale of the printing plate business and a profit contribution from SGL Carbon, the maker of carbon and graphite products in which Hoechst no longer has a majority stake, it said.

Sales rose 1 per cent over the same period last year, to DM13.2bn. Prices were 2 per cent lower on average than in the previous year, but the group said there were signs of a price recovery. Favourable exchange rate movements, in particular the appreciation of the US dollar against the D-Mark, boosted sales.

Without adjustments for the group's changes, operating profit in the first quarter dropped 22 per cent compared with a year earlier, to DM1.03bn. But it was 20 per cent higher than a year ago after adjustments, the group said.

Mr Klaus-Jürgen Schmieder, chief financial officer, said he expected the second quarter to show a distinct improvement, even though the group needed to spend more than DM500m during 1997 for restructuring.

Hoechst said the integration of HMR, its drugs business which it had planned to list separately, was proceeding as planned.

At the same time, Skanska announced a decline in first-quarter pre-tax profits from SKr537m to SKr412m. The fall came in spite of an increase in sales from SKr9.8bn to SKr10.6bn, primarily attributable to growth in US operations.

Greg McIner, Stockholm

EUROPEAN NEWS DIGEST

Skanska launches shares redemption

Skanska, Sweden's largest construction group, yesterday launched a SKr5bn (\$637m) redemption of shares as part of a previously announced plan to hand SKr5bn-SKr15bn of excess cash back to shareholders. The company - one of several large Swedish corporations currently exploring share redemptions as a means of offloading surplus cash - said it would redeem one-tenth of its shares. The offer price was set at SKr400 a share, a substantial premium to yesterday's closing price of SKr346. A further transfer of capital to shareholders was likely next year, Skanska said.

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Greg McIner, Stockholm

Eni in venture with Enel

Eni, the Italian state-controlled oil group, yesterday launched its campaign for the flotation of a third tranche of shares with the announcement that it had signed an agreement with Enel, the state electricity utility, to form a joint electricity venture. The deal envisages the pooling of Eni's electricity generating facilities with some of Enel's power generation assets.

The idea is to form a jointly-held company to be listed on the stock market to compete in the Italian electricity sector when it is eventually liberalised. With an initial generating capacity of 5,000MW, the joint company aims to become the second-largest Italian electricity generator after Enel.

Yesterday's announcement coincided with the start of Eni's campaign to sell another tranche of shares. The new offering is expected to be launched between June 23 and June 27. The government, which owns 68 per cent of the oil group, is expected shortly to announce the size of the latest offering, which is likely to involve a 15-17 per cent stake. IMI, the Italian credit institute, and Credit Suisse First Boston have been appointed global co-ordinators.

Paul Betts, Milan

San Paolo names new head

Mr Luigi Maranzana was yesterday appointed the new chief executive of Istituto Bancario San Paolo di Torino, Italy's largest banking group, which is to be privatised this month. His appointment follows the resignation last week of Mr Dario Pasqua, the former chief executive, who stepped down to make way on the board for the bank's new core of stable shareholders. Mr Maranzana is currently the bank's managing director.

Paul Betts

Cortefiel recovers

Strong sales growth enabled Cortefiel, the Spanish clothes store group, to stage a profit recovery in the financial year to the end of February, with a 20 per cent increase in net profits to Ptas4.15bn (\$28.4m). The group, which has undertaken an ambitious expansion programme in France and Germany, suffered a fall of almost 23 per cent in earnings the previous year.

Sales at its store chains, including the menswear specialist Springfield, rose almost 18 per cent to Ptas6.19bn. Overall net turnover, including sales of clothing to other retailers, was up 15 per cent at Ptas6.85bn. The company said the increase came largely from the opening of 51 new stores.

David White, Madrid

Andersen board looks to UK for new chief

By Jim Kelly,
Accountancy Correspondent

The board of Andersen Worldwide, the New York-based umbrella organisation for the world's largest professional services group, has urged partners to appoint its first non-US managing partner and chief executive.

The decision to put forward the name of Mr Jim Wadia, the 49-year-old managing partner of accountants Arthur Andersen in the UK, signals a symbolic cultural shift for the organisation, founded in Chicago in 1913.

The recommendation will go to the organisation's 2,700 partners this week for a formal ballot. An official announcement will be made this month if Mr Wadia gets the required two-thirds majority.

Mr Wadia has been closely

involved in the so-called Andersen 21 project to find a strategic way forward for the group.

In Paris last week, partners voted to back the project's recommendation and keep the two business units - Arthur Andersen and Andersen Consulting - together within the Andersen Worldwide structure.

The organisation has been under pressure to cope with Andersen Consulting's rapid growth and Arthur Andersen's development of consulting services, which has sometimes clashed with its sister firm.

Mr Wadia, who is a qualified barrister and chartered accountant, said yesterday he was "honoured" to be put forward but otherwise would not comment - an indication that the succession is no formality and that the organisation still has to deal with its internal problems.

Before last week's meeting in Paris - at which the option to allow the consulting business to demerge and float was considered - Mr George Shaheen, managing partner of Andersen Consulting, was one of the candidates to succeed Mr Larry Weinbach as chief executive when he steps down in August.

Mr Wadia is unlikely to have been nominated without clear indications that he will win support from Andersen Consulting's 1,000 partners - as well as the backing of the 1,700 in Arthur Andersen.

He is well known in the organisation, and is seen as a non-confrontational candidate who confounds the Andersen "robot" label with a relaxed management style.

Jim Wadia: nomination signals a symbolic cultural shift for the organisation



Jim Wadia: nomination signals a symbolic cultural shift for the organisation

Swiss insurers turn in strong performances

By William Hall in Zurich

Swiss Re and Zurich Insurance, Switzerland's two biggest insurers, increased profits by about one-third in 1996. The continued recovery in the earnings of the two groups was helped by strong investment performance, favourable currency developments and the first-time impact of acquisitions.

Swiss Re, the world's second biggest reinsurer

company, increased net profits by 33 per cent to SFr1.46bn (\$991m). This is nearly triple the figure of three years ago, and the company underlined its confidence by proposing to increase its dividend by a third to SFr30 a share. Swiss Re shares rose SFr45 to SFr1,800 yesterday, helping push the Swiss Market Index to a record high.

Swiss Re's profit announcement follows a 30.2

per cent rise in Zurich Group's net profits to SFr1.14bn. Earnings per share rose by 26.5 per cent to SFr24.3 and the group plans to raise its dividend by 20 per cent to SFr7.20 a share.

Pre-tax profits of Zurich's non-life business rose by 14 per cent to SFr1.44bn. Its loss ratio improved in spite of further strengthening of loss reserves, but the expense ratio rose due to restructuring costs. Zurich's

non-life profits more than doubled to SFr337.1m, primarily due to the acquisition of the Kemper life insurance business in the US.

Swiss Re says the acquisition of Mercantile and General Re, the UK reinsurer, helped boost the balance sheet but its profits were not consolidated in the latest figures. Gross premiums in Swiss francs rose by 11 per cent to SFr14.2bn but after adjusting for exchange rate

movements there was a 3 per cent fall in local currencies.

The investment portfolios of both companies benefited from the growth of world stock markets. Swiss Re's investment result rose by 27 per cent to SFr3.31bn and its return on investment grew to 7 per cent. The group's overall return on equity increased from 12.7 per cent to 13.8 per cent. Zurich has not disclosed the impact of its investment

performance but says that investment results were "very strong".

The growth in income from interest, dividends and realised gains exceeded the 33.3 per cent growth in investments to SFr11.7bn. Zurich's gross premiums written rose by 20.5 per cent to SFr31.9bn, but in local currency terms the growth rate dropped to 7.6 per cent, of which roughly half reflected the Kemper acquisition.

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| Secondary Metallurgical Facilities | Environmental Technologies |

Key Figures

	1996	1995	Change 95 / 96
Order intake (ATS m)	14,595	9,163	+58%
Order backlog as per 31.12. (ATS m)	29,380	22,436	+31%
Turnover (ATS m)	8,375	5,284	+59%
International share (%)	93	92	+1%
Turnover plus changes in inventory (ATS m)	8,981	6,411	+40%
Profit from ordinary activities (ATS m)	631	496	+27%
Net profit (ATS m)	537	494	+9%
Product and process innovation (ATS m)	531	500	+6%
Employees (31.12)	3,750	3,268	+15%

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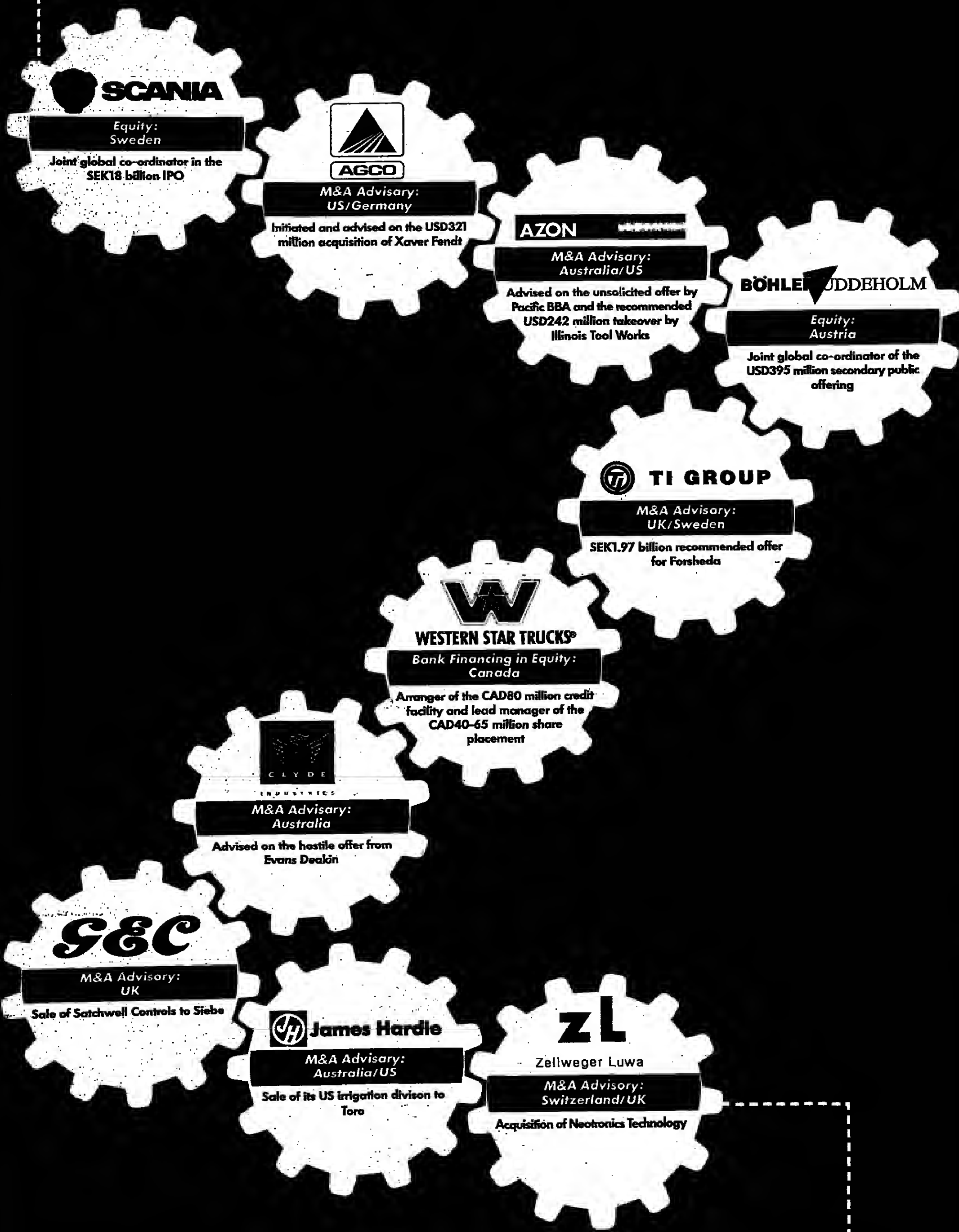
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Chase Investment Bank Limited	Union Bank of Switzerland
Commerzbank Aktiengesellschaft	ING Barings
Co-Arrangers	
ABC International Bank plc	Arab Banking Corporation (B.S.C.)
BVW Bank Ireland plc	The Bank of Tokyo-Mitsubishi, Ltd.
Bayerische Vereinsbank AG	Dresdner Bank Luxembourg S.A.
Lead Managers	
National Bank of Kuwait (International) PLC	Arab African International Bank (AAIB)
GiroCredit Bank	Gulf International Bank B.S.C.
The Saudi British Bank	
Managers	
Bankgesellschaft Berlin	The Dai-ichi Kangyo Bank, Limited
Co-Managers	
Raiffeisen Zentralbank Österreich AG	Arab Bank plc
Banque et Caisse d'Epargne de l'Etat, Luxembourg	Banque Française du Commerce Extérieur
Československá obchodní banka, a.s.	Credito Italiano SpA
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COMPANIES AND FINANCE: INTERNATIONAL

Sales abroad help VW advance 48%

By Graham Bowley
in Frankfurt

Shares in Volkswagen, Europe's biggest carmaker, surged yesterday after the German group said strong foreign demand and a more favourable exchange rate helped lift pre-tax profits 48 per cent in the first quarter.

Net profits increased from DM116m a year ago to DM172m.

The strong start to the year prompted VW to predict another increase in profits in 1997, after record net profits of DM678m in 1996. "Provided economic conditions and the demand for automobiles remain steady, we expect better results in 1997 at both the parent and group levels," it said.

The announcements pushed VW shares sharply higher. At the close of screen trading, shares were up DM41.90, or 3.6 per cent, at DM1,200.

Sales increased 9.8 per cent in the first quarter to DM26.86bn. Sales in Ger-



Ferdinand Piëch: investors have been impressed by the success of the VW chairman in turning round the carmaker

many fell 5.2 per cent to DM9.1bn but sales abroad rose 19.3 per cent to DM17.8bn.

VW has been one of the best performing stocks in the Dax index this year.

Investors have been impressed by the success of Mr Ferdinand Piëch, VW chairman, in turning round the carmaker in spite of a weaker German market. He has managed to lift

profits and maintain market penetration, at the same time as throwing off worries about alleged industrial espionage and corruption in the company's purchasing. Mr Piëch has pursued a

determined strategy which has attempted to differentiate between the group's four car brands, cut development costs, by reducing the number of engineering structures on which the different mod-

els are built; tighten control of spending; and boost productivity.

However, analysts warn that the group faces substantial launch costs - for its next-generation Golf and for the new Audi A8 models - as well as problems in maintaining product differentiation.

Deliveries to customers rose 9.6 per cent to reach 1,033,785 in the first quarter. The group's Skoda and Audi units recorded the strongest increases.

However, deliveries in Germany fell 4.9 per cent compared with the same quarter last year, to 233,954.

Sales in the US rose 8.7 per cent to 29,626 - its best sales result in seven years, VW said. "On account of the strong rise in the dollar rate, the import business remained lively [in the US]," it said.

VW said its first-quarter result would have been even better but for the Spanish truck drivers' strike in February.

INTERNATIONAL NEWS DIGEST

Corning to sell kitchenware unit

Corning, the US manufacturer, yesterday announced plans to sell its cookware and dinnerware business, for which it is most widely known. The company, which has become increasingly dependent on optical fibre and other high-tech products, has been making items for the kitchen and the dinner table since 1915. Its brands include Pyrex, Corning Ware and Corall.

The business, which had sales of \$880m last year, has been struggling for years, and Corning has said for some time that it would consider selling it. The unit accounts for virtually all the sales and earnings of Corning's consumer products division. This showed net income of \$8m last year, reflecting a rebound from earnings of just \$10m the year before.

Mr Roger Ackerman, chairman, said the disposal, which follows the spin-off last year of the company's larger healthcare operations, would leave Corning with high-growth businesses in communications, advanced materials and environmental products. "There are the areas where we are best able to apply our materials and process technology capabilities and create value for customers and shareholders," he added.

The consumer businesses to be sold account for about 600 of the 6,000 people employed by the company in Corning, New York. The company said it would give preference to would-be buyers who promised to keep the division's headquarters in Corning, and who offered the unit's 3,600 workers unchanged pay and benefit levels. Richard Waters, New York

OMV ahead in quarter

OMV, the Austrian energy and chemicals group, said yesterday that preliminary first-quarter earnings before interest and taxes rose from \$545m a year ago to \$611.2m (\$64m). The group, Austria's biggest industrial concern, said first-quarter sales were up from \$17.7bn in the year-ago period to \$21.45bn. "The start of the business year can be called successful," OMV said.

OMV said last month it expected 1997 earnings to be up on last year's level. For 1996, the group reported a 14.5 per cent rise in net profit to a record \$1.95bn.

Reuter, Vienna

Chauvco may sell assets

Chauvco Resources, a Canadian oil company that expects to produce 45,500 barrels of oil equivalent per day in the second half of this year, said yesterday it could soon sell assets or merge with another group. Chauvco, which operates in Canada and Argentina and will soon begin producing in Gabon, has a market capitalisation of C\$950m (US\$594m).

However, the company says its current stock price does not reflect its value or growth potential. Mr Guy Turcotte, chief executive, said Chauvco would explore all possible transactions that maximise shareholder value.

The company, which has retained Salomon Brothers and RBC Dominion Securities in an advisory role, had not held negotiations with any other group, nor had it been approached by other groups, Mr Turcotte added.

Scott Morrison, Vancouver

Chaco to invest \$86m

Chaco, the Bolivian hydrocarbons company controlled by Chicago-based Amoco, has unveiled plans to invest \$86m this year in upgrading and expanding former state-owned oil and gas fields. Some \$35m will go into repairs, development of existing wells and additional drilling, \$19m into exploration, \$7m on environmental projects, and \$3m on computerisation.

Chaco is one of the two new units into which the upstream facilities of Bolivia's YFFB were divided before "capitalisation", Bolivia's unique privatisation mechanism, last December. Amoco outbid Spain's Repsol, offering a total capital injection of almost \$307m in return for 50 per cent of the shares and a management contract. The other unit, Andina, went to an all-Argentine consortium made up of YPF, Perez Companac and Fluorpetrol.

Bolivia is counting on dramatically increased output from the two badly undercapitalised oil and gas-bearing units to meet its contract to supply Brazil with a minimum of 8m cubic feet of natural gas a day from early 1999. Mr Ted Wenzler, Chaco's head of exploration, said: "The huge Brazilian market will require the discovery of at least another 2,000bn cubic feet of gas in the next three years - a 35 per cent increase in existing Bolivian reserves." Sally Bowen, Lima

Europe edges ahead in thin trading

GOVERNMENT BONDS

By Edward Luce in London
and Jane Martinson
in New York

European markets rose on very thin volumes, with the French OAT future in Paris trading fewer than 30,000 contracts - the lowest tally this year. US Treasuries, meanwhile, lost some of last week's gains in morning trading.

German bunds rose marginally on news that payroll figures to be released today will show a smaller-than-

expected drop in unemployment for April.

The 0.5 per cent rise in industrial production for March released yesterday did little to alter the view that the German economic recovery remains anemic. The June contract on the German 10-year bund future rose by 0.16 to close at 101.76 in Frankfurt. The markets in London were closed for a public holiday.

Spanish and Italian bonds also rose, making up for the fact that both markets had been closed on Friday when the US non-farm payroll data

for April were released. The June contract on 10-year STP futures rose by 0.24 to close at 128.15 on thin trading. The spread on Italian cash bonds tightened to 174 basis points over 10-year bunds. The Spanish bond future also gained ground, closing 0.45 higher than last Wednesday's close at 114.17.

French bonds rose slightly yesterday, partly in response to an opinion poll suggesting the likelihood of a centre-right victory in the parliamentary elections at the end of the month. The June contract on 10-year OAT futures

closed 0.2 higher at 120.50 in Paris.

US Treasuries gave up some of the ground they had gained last week. In early trading the benchmark 30-year Treasury bond dropped 1/8 to 98 1/8, while the yield returned above the 6.9 per cent barrier to stand at 6.905 per cent by mid-session.

The trend was repeated across the yield curve, with 10-year bonds yielding 6.880 per cent and two-year bonds yielding 6.255 per cent. Analysts suggested the market was taking a breather after a raft of eco-

nomics data and speculation about the impending budget deal had forced it much higher last week. The prospect of new supply from two auctions today and tomorrow also helped to damp sentiment.

Ms Janet Showers, at Salomon Brothers, said that a combination of holidays in the UK and Japan and a lack of fresh economic data had led to a quiet morning. She said that in contrast, last week had been abnormally busy with several important economic announcements. There are little data sched-

uled for release this week.

There was little surprise that the bond market had not reacted more strongly to the news of a Budget deal late on Friday. Mr Kevin Logan, senior market economist at Dresdner Kleinwort Benson, said: "People in general are sceptical about what goes on in Washington and there was very little detail about the budget."

The quarterly auction of three-year bonds takes place today, followed tomorrow by the 10-year auction.

Lex, Page 16

Northrop acquires IT group

By Christopher Parkes
in Los Angeles

Northrop Grumman, the US aerospace group, is to acquire Logicon, a defence information-technology specialist based in California, in an agreed stock-swap deal announced yesterday.

The deal is a further step in Northrop's strategy of reducing its dependence on military aircraft and sharpening its focus on electronic sensors and defence systems integration.

Logicon, which has annual

revenues of \$560m, will form the basis of a new IT division which will absorb much of Northrop's existing data systems business and have annual sales of almost \$1bn.

It will be run by Mr Jack Woodhull, Logicon chief executive, who will remain in his current headquarters at Torrance, close to Northrop's Los Angeles base.

Northrop yesterday predicted annual revenue growth of more than 10 per cent for defence IT until well into the next century, and forecast that the deal would

have minimum impact on the group's earnings per share this year.

No value was put on the merger, which is based on a formula by which Logicon shareholders will receive between 0.7 and 0.57 of a Northrop share for each Logicon unit they hold.

The deal represents a step forward for Northrop, which has been left behind in the merger-driven rush for growth in the US aerospace and defence industry.

Although it recently spent \$3bn to acquire Westing-

house's defence electronics arm, the group is only a medium-sized operator in a sector dominated by Lockheed Martin, with revenues of about \$30m, and by Boeing and McDonnell Douglas, which are soon to merge.

Northrop's short-term aim is to raise annual revenues to more than \$10bn by the end of the decade and to become a market leader in surveillance, precision-strike and advanced battle-management technologies, Mr Kent Kresa, Northrop chairman, said yesterday.

Huntington in \$900m buy

Huntington Bancshares has agreed to acquire First Michigan Bank Corp in a transaction valued at about \$900m, agencies report from Columbus, Ohio.

Huntington, which is based in Ohio and has assets of \$21bn, said it would merge First Michigan's bank units into its lead unit, Huntington National Bank, following the merger agreement, which is expected to close late in the third quarter.

Under the terms of the merger, shareholders of First Michigan will receive 1.05 shares of Huntington Bancshares common stock for each First Michigan share.

Based on Huntington's closing price on Friday of \$30, the exchange ratio represents a price of \$31.50 for each First Michigan share.

"Upon completion of this transaction, Huntington will have approximately \$5bn in assets in Michigan, making it our second largest market, after Ohio," said Mr Frank Wobst, Huntington chief executive.

The merger is expected to result in annual cost savings of at least \$19m, representing 15 per cent of First Michigan's expense base in 1996.

A pre-tax charge related to the merger of about \$35m will be recognised in the quarter the merger is completed, Huntington said.

Subject to regulatory and shareholder approvals, the transaction is expected to close late in the third quarter of 1997.

First Michigan is based in Holland, Michigan.

Polish convertible bond issue

By Christopher Bobinski
in Warsaw

Poland's first convertible bond issue by a local financial institution starts its international presentation today in Zurich.

Bank Przemyslowo Handlowy is due to present the \$100m issue to foreign investors, with Credit Suisse First Boston acting as adviser.

The proceeds of the euro-bond are aimed at financing the purchase of the state-owned Powszechny Bank Kredytowy by a local financial grouping which includes the listed Polish Development Bank and Kredyt Bank, as well as the Warta insurance company.

The Polish financial grouping has offered to buy 50 per cent plus one share of PBK's equity. It is being supported by the European Bank for Reconstruction and Development, which has separately offered to buy a further 15 per cent. Originally, the Polish government asked bidders to purchase 65 per cent of PBK.

The local group is competing against Samsung, the Korean industrial conglomerate, which has said it is treating the purchase of the PBK as its "gateway into Poland".

However, Citibank, which carried out due diligence procedures at PBK, has failed to confirm that it has placed an offer for the bank. Final offers were due by the end of last month. HSBC is advising the government on the sale.

Nestlé S.A., Cham and Vevey (Switzerland)

The shareholders are hereby invited to the
130th Ordinary General Meeting of Shareholders
to be held on Thursday, June 5, 1997, at 3.00 p.m.
at the "Palais de Beaulieu" in Lausanne (Switzerland).

Agenda

1. Annual report, annual financial statements 1996 of the Company and report of the auditors
2. Consolidated financial statements 1996 of the Group and report of the Group auditors
3. Release of the Board of Directors and of the Management
4. Decision on the appropriation of profits resulting from the balance sheet of the Company
5. Elections to the Board of Directors

The shareholders recorded in the Share Register with voting rights will receive, within the next few days, the invitation to the General Meeting, together with a reply form to order an admission card or grant a proxy.

Pursuant to article 689d of the Swiss Company Law, proxy holders of shares deposited with them are requested to notify the Company of the number of shares represented by them in due time, but at the latest by June 5, 1997, at 2.45 p.m. Institutions subject to the Swiss Federal Law regarding Banks and Savings Banks of November 8, 1934, as well as professional asset managers qualify as proxy holders of deposited shares.

The complete agenda with the proposals of the Board of Directors is published in the "Feuille Officielle Suisse du Commerce" of May 5, 1997, the Company's official means of publication. The 1996 Management Report is available and may be ordered at the Registered Offices in Switzerland, in Cham (Share Transfer Office) and Vevey (Secretary General), as of May 6, 1997.

Shareholders are requested to address any correspondence concerning the General Meeting to the Share Transfer Office of Nestlé S.A., P.O. Box 390, CH-6330 Cham (Switzerland).

The Board of Directors

Cham and Vevey, May 5, 1997
Switzerland

New Issue

This information appears as a matter of record only.
The bonds with warrants described below have already been offered for sale.

April 30, 1997

Dresdner Finance B.V.

Amsterdam, The Netherlands

DM 1,500,000,000

5 1/2 % Bearer Bonds with Warrants attached
to subscribe for Bearer Shares
of Dresdner Bank Aktiengesellschaft
of 1997/2004

unconditionally and irrevocably guaranteed by

Dresdner Bank Aktiengesellschaft

Frankfurt am Main, Federal Republic of Germany

Dresdner Kleinwort Benson Dresdner Bank Aktiengesellschaft	Banque Nationale de Paris S.A. Zweigniederlassung Frankfurt am Main	Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft	Credit Suisse First Boston Aktiengesellschaft
Deutsche Morgan Grenfell Deutsche Bank Aktiengesellschaft	Société Générale S.A.	UBS Schweizerische Bankgesellschaft (Deutschland) AG	
YAMAICHI BANK (Deutschland) GmbH			

COMPANIES AND FINANCE: ASIA-PACIFIC

Regent Pacific float priced at HK\$2.62

By Louise Lucas in Hong Kong

Regent Pacific, the emerging markets investment house, yesterday priced its HK\$467m (US\$67.7m) Hong Kong stock market flotation at HK\$2.62 a share.

The pricing puts the stock on a price/earnings multiple of 8.5 times last year's estimated earnings of HK\$335m. A total of 170.5m shares are to be sold, representing about

18 per cent of the enlarged share capital. The issue includes an international tranche and private placement under rule 144A in the US. Some 25 per cent of the offering is to be distributed to the Hong Kong public.

Nomura International (Hong Kong) is sponsoring and lead-managing the issue. The underwriters have an over-allotment option requiring Regent Pacific to

issue a maximum 31m additional shares in the event of heavy demand.

Proceeds of the issue will be used to expand business operations, particularly in eastern Europe, which is now the group's most active fund management market. Of the US\$1.77bn under management or advised upon, US\$1.085bn is in eastern European equity and debt funds.

Regent Pacific has earmarked up to US\$20m to expand its eastern European corporate finance capability, and up to US\$5m to finance a new domestic fund management company in Russia with a local partner.

The group also plans to spend US\$15m on acquiring a European finance house and up to US\$10m on expanding its eastern European brokerage.

Mr Jim Mellon, chairman and chief executive of Regent Pacific, said he was confident that investors would be attracted by the 45 per cent return on equity achieved by the group in each of the past four years.

Dealing in the company's shares is due to start on May 19.

Regent Pacific is forecasting interim net profits of HK\$200m for the six months to September 30.

ASIA-PACIFIC NEWS DIGEST

Beijing North Star to raise HK\$1.5bn

Beijing North Star, the property arm of Beijing's municipal government, which is seeking a listing on the Hong Kong Stock Exchange, plans to raise some HK\$1.48bn (US\$191m) when it comes to market later this month. The company is to issue 614.8m H-shares - the Hong Kong-listed stock of former mainland state-owned enterprises - at HK\$2.40 each. The pricing puts the shares on a price/earnings multiple of around 13.5 times on a fully diluted basis, according to the company.

The public flotation represents 34.6 per cent of North Star's enlarged share capital, and could be bigger if an over-allotment option - providing for an additional 92.22m shares - is exercised. HSBC Investment Bank Asia is sponsoring the issue.

The North Star offering received an early vote of confidence from the New World group, the Hong Kong property developer, which is to take a 9.6 per cent stake. Dealing in North Star shares is expected to begin on May 14. Proceeds will be channelled into the purchase of land and project development, as well as paying down debt.

Louise Lucas, Hong Kong

CTI shares suspended

By Louise Lucas

Shares in China Travel International, the mainland-backed travel, tourism and investment group, were suspended yesterday before an acquisition announcement. Analysts believe the target is Sun Fook Kong, a Hong Kong construction company which also had its shares suspended yesterday.

The CTI acquisition comes amid a spate of activity among the red-chips - mainland-backed companies listed in Hong Kong - which have been cashing in on

strong investor sentiment to raise funds. Proceeds have typically been used to purchase assets from mainland parents, usually on terms favourable to the Hong Kong units.

CTI itself has been no laggard. In January it raised HK\$2.5bn (US\$322.7m) through a share placement, just six months after a HK\$792m issue to its parent company, and in March it paid HK\$487m for an effective 20 per cent stake in Citybus Group, one of the territory's four franchised bus companies. Other pur-

chases in the past year included Hong Kong's Metro Hotel (bought from its parent) and 51 per cent of a China power station.

The company has seen its share price soar some 80 per cent over the past six months, but its recent track record of raising far more cash than it spends and its spiralling price/earnings ratio have left some fund managers wary of the stock.

News of the acquisition came as CTI reported a 33.8 per cent rise in net earnings, from HK\$197.65m in 1995 to HK\$264.45m last year.

Proton sees own vehicle by 2000

By Haig Simonian, Motor Industry Correspondent, in Kuala Lumpur

Proton, the Malaysian "national" carmaker set up with technical assistance from Mitsubishi Motor, of Japan, should be able to build its first independently developed vehicle before the end of the century.

Mr Saleh Sulong, chairman of DRB-Hicom, which controls Proton, said the new model was one of a number of innovative cars the company was planning. Since Proton built its first vehicle in 1985, output has climbed to almost 200,000 units last year.



Mr Saleh Sulong, foreign technology still needed for engines

However, Mr Saleh admitted that the new model would still depend on foreign technology for its engine and gearbox. Local analysts believe it will not be until early next century that Proton - the brainchild of Dr Mahathir Mohamad, Malaysia's prime minister - will have the expertise required to develop its own engines.

Mr Saleh said the govern-

ment had encouraged Proton to co-operate with Petronas, the Malaysian oil group, to develop engines.

It was to help make the "quantum leap" to technological independence from Mitsubishi that Proton bought last October a controlling stake in Lotus, the UK sports car and auto engineering group, said Mr Tengku Mahaleel Tengku Arif, Proton chief executive. Lotus would play an

important part in devising the new vehicle, he added.

Mr Saleh said Proton would turn to either Mitsubishi, or possibly Citroën of France - with which it also has a technology transfer agreement - for the engines for its first independently developed car, pending the availability of its own power units.

The company is also believed to be considering a deal with a US carmaker.

Rescue begins at Thai bank

By Ted Baradoke in Bangkok

Thailand's development bank, the Industrial Finance Corporation of Thailand, this week begins the Herculean task of restoring normality to the Bangkok Bank of Commerce, the mid-sized commercial bank which almost collapsed last year from more than \$3bn in bad debts.

Under a taxpayer-guaranteed rescue plan, which received a series of government and shareholder approvals last week, IFCT

will manage the BBOC in exchange for an 18 per cent share of the bank's capital and the right to buy up to 51 per cent of the bank over seven years at pre-determined prices: an annual management fee of Bt80m (\$1.38m) and a share of its profits from new business.

Analysts say the deal is virtually risk-free for IFCT, which successfully rescued the First City Investment group in the early 1990s. However, the foreign investors that own almost half of the company, in league with various Thai government

agencies, may object if IFCT decides to subscribe to the capital issues the BBOC is expected to offer within the next 18 months.

The central bank, the largest shareholder in the BBOC, is taking on the biggest political risk by buying about Bt800m of the bank's estimated Bt88bn in bad debts for Bt48m, a discount of just 20 per cent. Analysts say this is generous given that much of the money lent by the BBOC's previous management, who are facing criminal charges, was for stock market speculation.

Hindalco Industries down

Hindalco Industries, India's largest private sector producer of aluminium, suffered a fall in profits in 1996-97. Net profit of the company, the flagship of the Aditya Birla group, fell 2.5 per cent from Rs4.01bn in 1995-96 to Rs3.9bn (\$111.4m) in the year to March. Net sales fell from Rs12.5bn to Rs11.5bn.

The company said the fall followed a "tremendous" drop in international aluminium prices from \$2,146 a tonne in January 1996 to \$1,286 a tonne in October 1996. Profits were also hit by power supply disruptions, rising raw material and transportation costs, and a planned plant shutdown for technological upgrading.

Earnings per share for Hindalco, after taking into account a bonus issue of shares, were Rs2.50 compared with Rs2.79 in 1994-95. The company declared a dividend of Rs4.5, the equivalent of Rs6.5 before the bonus issue. The dividend for 1994-95 was Rs6 a share.

Tony Tassell, Bombay

Strong rise in ICICI profit

Industrial Credit and Investment Corporation of India has reported a strong rise in profit for the year to March following its merger with an associate, ICICI, which merged early in 1997 with Shipping Credit and Investment Corporation of India to create an institution with assets of more than \$10bn. ICI had net profits 62 per cent in 1996-97 to Rs7.7bn (\$220m). ICICI said net profit in its pre-merger incarnation would have risen 26 per cent to Rs5.9bn. The company added it had booked capital gains of Rs1bn during 1996-97 on the sale of shares in small to mid-cap companies.

Tony Tassell

The Directors of Gedeon Richter Ltd. announce that the payment of dividends for 1996 will take place as follows:

Dividends approved by the general meeting: Preference shares = 12% of nominal value Ordinary shares = 10% of nominal value

Place of payment: Gedeon Richter Ltd. Share Registry Office (1101 Budapest, Gyömrői út 13.)

Creditor's Securities Ltd. (For deposit certificates only) (Rothschild V. Neugebauer, Messrs. 10.)

From 2nd June to 15th July 1997 9:00 am to 3:00 pm on business days

The company will pay dividends either in cash, or by money transfer. The Board of Directors asks those shareholders who request payment by money transfer to appear either in person or by proxy at the place of payment where they may have transfer orders by completing and signing the relevant form (which will include the account holder's name and relevant bank account details). The company does not accept liability for delays or damage caused by inaccurate or deficient transfer orders. Money transfers will be made within five banking days following the receipt of money transfer orders, but will not take place prior to 6th June 1997. The performance of these duties shall be the duty of the shareholder's account in the beneficiary bank.

As a condition of dividend payment, shareholders must be listed in the Company's share register as the owner of shares. Shareholders or their proxies must provide evidence of their identity with an ID card, a tax card setting out their tax code, as well as the relevant dividend coupons.

Dividends payable on preference shares deposited with the company for conversion shall be paid either in cash or by money transfer as per the request of the shareholder. Shareholders requesting payment in cash may present their deposit certificates in place of their shares.

Pursuant to Act CXVII, 1995 on the Income Tax of Private Individuals. This company will make a deduction of 20% from dividends due to private individuals.

Ordinary shares: Dividends payable on shares held by deposit custodians, who provide proper ownership credentials, whose accounts are with KELLER, and whose shares are physically deposited with custodians (including shares owned by non-Hungarians) will be made by money transfer by Credit Suisse Securities Ltd. (Paris) to the account of the shareholder on 15th June 1997. On 15th June 1997, the custodian is obliged to deduct 20% of the dividend as tax, from private individuals in accordance with Act CXVII of 1995 on the Income Tax of Private Individuals, as well as any other tax required by law from non-Hungarian shareholders at the time of payment, and will issue shareholders with a receipt after the payment of these taxes.

In the case of physical deposits, the custodian may pay the dividend upon presentation of the shares.

Shareholders who physically hold their shares will receive their dividend from the company at the Share Registry Office on normal business days between 9:00 am and 3:00 pm either in cash or by money transfer, as requested by the shareholder upon presentation of the shares.

As a condition of dividend payment, shareholders must be listed in the Company's share register as the owner of shares. Shareholders or their proxies must provide evidence of their identity with an ID card, a tax card setting out their tax code, as well as their dividend coupons.

Dividend payments will be made to non-registered shareholders if the better presented an appropriate form requesting registration of their shares in the share register, and if their names are entered on the share following endorsement. (In this case, presentation of a dividend coupon is not sufficient.)

Dividends to shareholders who participated in the 1995 preferential share offering or who have received other discounts on the share purchase price will be paid dividends by the Company together with the payments on 6th and 10th June 1997 to holders of shares at Richter in Budapest, and with payments on 10th June 1997 to holders of shares at Richter in Dörmög. Persons no longer employed by the company will receive their dividends in cash after presenting their certificates of deposit certificates. The company will arrange for the dividend coupons to be detached for common shares which are placed in deposit.

Pursuant to Act CXVII of 1995 on the Income Tax of Private Individuals. The company will deduct from private individuals 20% of the dividend due as tax, from private individuals.

Dividends not collected at the above times may be collected at the Company Share Registry Office from 1st September 1997, Monday to Thursday from 9:00 am to 4:00 pm.

All proxy instruments must be either notarised or presented as private documents with enjoying legal force. Original documents must be handed over to the share office when dividends are collected.

IMPORTANT We wish to remind shareholders who are private individuals that, in the event of failure to present their tax card containing their tax identification code, the Company will deduct a 40% income tax advance on the basis of Section 45(6) of Act CXI of 1990 on Taxation rather than 20% of the dividend as tax at source.

Budapest, 1st May 1997

SALOMON INC
Notice of Redemption
Yen 1,500,000,000
Euro Medium Term Notes due 20th May 1998
(Common Code: 6638341, ISIN Code XS0066383414)
Notice is hereby given, in accordance with the Prospectus Supplement dated April 5, 1996 relating to the above mentioned notes, that the issuer pays on the relevant Interest Payment Date August 4, 1997, against Coupon No. 11 will be US\$75.14 in respect of US\$5,000,000 of the Notes.
May 2, 1997, London
By: Citibank, N.A. (Corporate Agency & Trust, Agent Bank)

CITICORP
U.S. \$250,000,000 Floating Rate Notes
Due November 1999
(the "Notes")
Notice is hereby given that the Rate of Interest for the Interest Period May 6, 1997 to August 4, 1997 has been fixed at 6.0125% and that the issuer pays on the relevant Interest Payment Date August 4, 1997, against Coupon No. 11 will be US\$75.14 in respect of US\$5,000,000 of the Notes.
May 2, 1997, London
By: Citibank, N.A. (Corporate Agency & Trust, Agent Bank)

Our thanks to the following companies for presenting at the UBS Securities Global Banking Conference.

Abbey National plc
Ian Huxley, Group Finance Director

Allied Irish Banks plc
Declan McSwiney, CFO

American Express Company, Inc.
Richard K. Goetz, Vice Chairman

Banc One Corporation
John B. McCoy, Chairman and CEO

Banco Bilbao Vizcaya
Luis Javier Buzada, CFO and Executive Committee Member

Banco Central Hispano
Joan David Górriz, General Manager and CFO

Banco Itaú S.A.
Roberto Senubal, President and CEO

Banco Popular Español
Manuel Martín, Chief Economist and Member of the Managing Committee

Banco Santander
Miguel Rodríguez Lizarbe, Second Vice Chairman

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G.E. Bancamer-Accival
Manuel Medina Mora, President and CEO

Generale Bank
Ferdinand Chaffat, CEO

Grupo Financiero Bancomer
Mario Labadie, Executive Vice President of Specialized Banking

Grupo Financiero Scfin
Adolfo Lagos Espinosa, CEO

Gruppo Financiero Bital
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The Toronto-Dominion Bank
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COMPANIES AND FINANCE: FALL-OUT FROM BRE-X

Fiasco casts cloud over Toronto mining sector

The Bre-X fiasco has sent shockwaves through Canada's mining industry and securities markets just as Toronto appeared to be emerging as the world's premier mining finance centre.

That reputation is now under a cloud, as investors and mining experts wonder how Bre-X Minerals could within two years have catapulted itself from a small exploration company into one of the most highly-valued shares on the Toronto Stock Exchange based on what has turned out to be a massive fraud.

Misgivings about the entire junior mining sector were evident yesterday, as shares of small gold exploration companies tumbled on the Toronto Stock Exchange, even as their bigger counterparts gained ground.

For instance, Yamana Resources slid 45 cents to C\$2.90 in early trading. Caledonia Mining lost 30 cents to C\$1.80. By contrast, Barrick Gold, one of the biggest gold producers outside

South Africa, gained 55 cents to C\$31.95. Yamana has been forced to scrap a proposed takeover and Caledonia to withdraw a financing since the authenticity of the Busang deposit was first questioned by New Orleans-based Freeport-McMoRan Copper and Gold in late March.

"The problem for Canada is image," said Mr Bill Mackenzie, vice-president at Fairvest Securities, a Toronto firm that acts as a corporate governance watchdog for institutional investors.

The Toronto Stock Exchange and the Ontario Securities Commission, Bre-X's two main regulators, have faced intensifying scrutiny since Freeport first cast doubt on Bre-X's spectacular drilling results.

According to Mr Philip Anisman, a Toronto securities lawyer, "the Bre-X affair" suggests that securities regulators should be quicker to investigate when there are suggestions of impropriety in high-value, speculative companies.

Several red flags were raised before Freeport smelled a rat. Local newspapers said last autumn Mr David Walsh, Bre-X chairman, and other insiders sold millions of dollars worth of shares before the news was released that Indonesia had cancelled a mining licence.

Share as Bre-X in its benchmark TSE-300 index. Indices such as the TSE-300 have become important investment vehicles in the past decade, especially for investors seeking to minimise risk.

Its decision to halt trading in Bre-X for extended periods has also angered investors. Trading

companies raise capital, explore promising ore bodies, and report and verify their drilling results.

A growing proportion of mining exploration in recent years has been carried out by small companies headed by entrepreneurial geologists and mining promoters. They have been espe-

cially active in developing countries in south-east Asia, Latin America and Africa.

After making a discovery, the small companies have typically turned to industry giants with the financial resources and expertise to turn an exploration site into a producing mine.

Barrick Gold, for instance, paid US\$790m last August for Arequipa Resources, a Vancouver-based group with exploration properties in Peru. A mine is due to come into production at one of the properties, known as Florina, in less than three years.

However, deals such as these could become more rare as outside investors put less faith in junior companies in the wake of the Bre-X scandal.

Mr John Willson, chief executive of Placer Dome, the big Vancouver-based gold producer, told his company's agm last month that "recently, the juniors have been able to raise all the money they need and do their own thing. At least for a while, it will be difficult for the juniors to raise money on the strength of a few drill holes." He added that Placer would now be more selective about what it took on, and more inclined to rely on its own exploration team.

Another Placer official said: "It is obvious that if we can find by ourselves good quality reserves

at US\$36 an ounce, then that will beat good quality reserves purchased from another company at US\$130 an ounce."

The cautious mood has been reinforced by the depressed price of bullion, currently just above US\$340 an ounce.

Mr Dudas predicted that the junior sector's fortunes would pick up if and when the gold price rebounds. "A rising tide lifts all boats," he noted. "If the gold price were to get back to its average over the past three years, people would start looking at these things again."

First, however, senior mining companies and other investors will want greater reassurance that the proposals brought to them are based on genuine results. According to Mr Dudas, the misguiding Busang gold rush "will make the industry more united worldwide in how they report and distribute drilling results to investors."

Bernard Simon

THE MOOD IN JAKARTA By Manuela Saragosa

Exploration groups face tighter controls

Indonesia's authorities will take legal action if its laws have been violated in the Busang affair, warned Mr Ida Bagus Sodjana, the mines and energy minister.

"The government, of course, will take strong measures," he said. Before any action was taken, he added, punitive measures would be discussed with President Suharto, who has an indirect involvement in Busang through his links to Nusamba, the holding company for the local joint-venture partners.

Indonesian interests, including the government's stake, amounted to 40 per cent but no Indonesian parties had injected cash into the project.

The government is widely expected to banish Bre-X Minerals' employees and

management from the country. Three Philippine employees of Bre-X who had important roles in the operations at the Busang site are no longer in the country, Bre-X confirmed.

Meanwhile, Nusamba said it would be notifying Bre-X that it was pulling out of the project.

Nusamba, controlled by Mr Mohammad Hasan, one of President Suharto's closest advisers, wrestled its way into the Busang joint venture after a four-month political battle for control of the project.

While Strathcona's findings were not completely unexpected, many mining executives expressed astonishment at the apparent size of the fraud.

"It is criminal," said Mr Widartolo, executive secre-

tary of the Indonesian Mining Association in Jakarta. The findings of the Strathcona report are likely to prompt Indonesia's authorities to tighten control over the activities of hundreds of exploration companies operating in resource-rich areas of the archipelago in an attempt to avoid similar embarrassments.

"This is the first time something like this has happened in the history of Indonesian mining," said a former high-ranking senior mining official. "It would not be fair to condemn the government. We rely on the goodwill of these exploration companies."

The repercussions will be felt by local and foreign exploration companies. Last month, after long delays, 65 mining contracts to prospect for minerals ranging from gold to copper and nickel were finalised with the Indonesian government.

Most of these were Canadian exploration companies which entered Indonesia in droves after the initial encouraging estimates Bre-X provided about the size of the Busang deposit.

However, the government will have to weigh the precautions in supervising exploration companies against maintaining an environment that attracts foreign investment, which has always been the driving force behind new mineral discoveries in the country.

Indonesian authorities have already become more heavy-handed in their intervention in the mining sector: they have delayed awarding a licence to Newmont Mining, of the US, to proceed with the US\$1.9bn construction of its Batu Hijau deposit on the eastern Indonesian island of Sumbawa.

Now that Busang is no longer a contender in the gold mining sector, Batu Hijau is set to be the country's second largest gold mine, with an estimated 14.7m ounces of gold, after Freeport-McMoRan & Gold's operations in Irian Jaya.

The Bre-X files

The report

From STRATHCONA to BRE-X MINERALS
BUSANG GOLD DEPOSIT IN INDONESIA

The chairman

David Walsh

Bre-X chairman David Walsh

Bre-X chairman David Walsh

Bre-X chairman David Walsh

Bre-X chairman David Walsh

Bre-X chairman David Walsh

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Bre-X chairman David Walsh

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GLOBAL REACH

IN-DEPTH CAPABILITIES

LOCAL INSIGHT

UNITED KINGDOM

INDUSTRY EXPERTISE

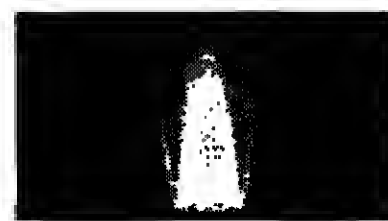
Life Sciences International

Thermo Instrument Systems acquired Life Sciences International for £236 million through a recommended public offer to enhance its presence in the laboratory products market. We acted as financial advisor to Life Sciences on this transaction.



The Energy Group

The Energy Group was de-merged from its parent company, Hanson, for approximately £2.9 billion. We acted as U.S. advisor to The Energy Group, and assisted the Company in successfully stabilising its U.S. investor base.



COLT

COLT Telecom Group PLC — a provider of competitive local telecommunications services — raised \$314 million to help fund its European expansion. We acted as sole global coordinator and joint sponsor, completing the first-ever simultaneous initial public and high yield offerings for a European company.



BBA Group

BBA acquired Corovin from Stoehr for a total consideration of DM178 million as part of its strategy to develop and grow its core non-wovens business. We acted as financial advisor to BBA; our local and industry knowledge helped BBA to prevail in a competitive auction process.



Entergy

Entergy's £1.2 billion recommended cash offer for London Electricity will further its strategy of becoming a global energy company. We acted as lead financial advisor to Entergy on the public offer to London Electricity shareholders.



Siebe

Siebe acquired Satchwell Controls from The General Electric Company for £80 million to enhance its position in the European building automation systems market. We acted as financial advisor to Siebe on this transaction.



MORGAN STANLEY

COMPANIES AND FINANCE: UK

Rewrite for Mr Holland's opus

Alice Rawsthorn peers into the uncertain future facing Boosey & Hawkes

It must be every executive's nightmare, and last week it happened to Mr Richard Holland, chief executive of Boosey & Hawkes, when he was told that its largest shareholder was up for sale, thereby putting Boosey into play.

The board of Boosey, which is best known as a musical instrument manufacturer, but also owns one of the world's largest classical music publishing catalogues, had known for some time that changes were afoot at Carl Fischer, the US music publishing company which owns 45.3 per cent of its equity and has been its principal investor since the 1960s.

Mr Walter Connor, former president of Fischer and non-executive chairman of Boosey, died last year and his heirs have since discussed selling the business. On Wednesday, the Fischer board asked Credit Suisse First Boston to find a buyer. Fischer's new owner would then be obliged by London stock-market regulations to bid for the rest of Boosey's shares, including an 8.2 per cent stake controlled by the US company's employee pension fund.

Through no fault of its own, the Boosey board has seen its business put up for sale, in circumstances that leave it with no control over the choice of future proprietor.

In theory, Boosey could bid for Fischer, which is a smaller company, and stage an institutional placing of the latter's stake. But in practice it is unlikely to be able to, as Fischer's shareholders would clearly prefer to sell to an external bidder



Top brass: Boosey, and Richard Holland, hope a glamour-stock investor will take a shine to the company

willing to pay a premium to control Boosey.

Mr Holland did his best to be sanguine about Boosey's dilemma. He admits that his preferred option would be for Boosey to retain its independence as a publicly quoted company, while accepting that an outside bid is possible.

A bid would end nearly 70 years of independence since 1930, when Boosey & Co. founded in the 1780s as a London sheet music library, merged with Hawkes & Son, which was established in 1887 and owned a rival library and a musical instrument factory.

The Boosey & Hawkes of

today owns the music publishing rights to works by such 20th century composers as Stravinsky, Rakhmaninov, Gorecki and Prokofiev. It also makes brass, woodwind and string instruments ranging from Buffet Crampon flutes, and the "Beatle Bass" guitar, to Rico reeds.

After a bruising period of losses in the mid-1980s, Boosey rebounded to report its eighth consecutive year of profits growth in 1996, when pre-tax profits rose by 25 per cent to £7.7m on sales 8 per cent higher at £94.4m.

Robust though Boosey's business may be, its mix of interests is so idiosyncratic

that it may be difficult for Fischer to find a buyer for the entire business.

The musical instrument division may appeal to a rival manufacturer, possibly Steinway/Selmer of the US or Japan's Yamaha, but they are unlikely to be interested in the publishing catalogue.

Conversely, that business might attract a multinational music group such as the UK's EMI, PolyGram of the Netherlands or Japan's Sony, although it is doubtful that any of them would want to hold on to the instrument side.

Another potential problem is that, although publishing - which involves collecting

royalties for the right to perform pieces of music - is one of the fastest-growing areas of the music industry, the classical market is currently depressed.

The only other option, according to analysts, is for Boosey to attract one of the individual investors who occasionally pounce on "glamour stocks".

Meanwhile, the Boosey board is desperately trying to find a way of maintaining the company's independence, while hoping - as Mr Holland puts it - that the situation will be resolved "as quickly as possible" because "uncertainty is always undesirable".

BIB plans shopping lines on terrestrial television

By Raymond Snoddy

British Interactive Broadcasting, the new £700m (\$1.1bn) company to be unveiled tomorrow, which will provide home shopping and home banking on digital satellite television, is also planning to offer interactive services on digital terrestrial TV.

British Sky Broadcasting, the satellite TV venture, which is expected to announce third-quarter profits pre-tax of about £80m tomorrow, is the common link between the two. BSkyB put together the British Interactive Broadcasting joint venture which includes BT, Midland Bank and Matsushita, the Japanese consumer electronics group.

BIB will subsidise the "black-box" decoders which will be able both to handle 200 channels of digital TV and also provide services such as fast Internet access on TV screens. But BSkyB is also a founding shareholder of British Digital Broadcasting, one of two rivals bidding for three commercial "multiplexes" or blocks of frequencies.

The Independent Television Commission will decide between BDB and Digital Television Network (DTN), a company owned by NTL, the cable and television services group, within the next six weeks. Unlike digital satellite transmissions, digital terrestrial is broadcast from hilltop transmitters and can be received on a conventional domestic aerial.

The BIB partners believe a modified selection of home banking and home shopping services could be provided from the launch of digital terrestrial in the middle of next year if BDB is successful.

The possibility of making digital satellite and digital terrestrial receivers compatible through a plug-in "cart" is already being worked on. A completely integrated single receiver will follow later.

BIB is planning massive subsidies for its digital satellite receivers to try to kick-start the market. Equipment that would normally retail for £500 is expected to be offered at £199.

In its application to the commission, BDB did not envisage an early launch of interactive services and instead concentrated on offering 15 TV channels such as Sky Sport and Sky Movies and new channels from the BBC. By contrast, DTN from the outset promised more than 40 interactive services such as home shopping as well as entertainment.

It is not clear how much attention the ITC will pay to the possibility of a BIB-BDB link-up and the launch of earlier-than-expected interactive services. BSkyB will now argue that the likely involvement of the BIB companies together with the other BDB shareholders, Carlton Communications and Granada, is the best chance for establishing both digital satellite and digital terrestrial broadcasting in the UK.

NEWS DIGEST

Motion on Shell gains support

Two leading environmental and human rights organisations have come out in favour of a shareholder-sponsored resolution calling for Royal Dutch/Shell to introduce rigorous standards for measuring its environmental and human rights policies - including independent external audits.

The Worldwide Fund for Nature and Amnesty UK will today announce their support for the motion, which will be put to the Shell annual meeting in London on May 14. Shell says the resolution is unnecessary, as it is already making improvements to its environmental and human rights policies. But Pirc, the corporate governance pressure group, and the institutional and private shareholders behind the resolution say it is "still lagging behind best practice" in the industry.

Amnesty UK will use a Pirc-sponsored investor briefing today to call on Shell to accept "social auditing" to ensure the company complies with its new commitment to human rights. The Worldwide Fund for Nature has written to Prudential, Britain's biggest life assurance company and Shell's largest shareholder with a 3.1 per cent stake, asking it to support the resolution.

Shell resumed oil production around the southern Nigerian town of Warri yesterday, 10 days after installations were closed following clashes between rival Ijaw and Itsekiri communities. "Dialogue with local leaders has paid off," the company said. "Operations are now virtually back to normal."

Whitbread plans pubs sell-off

Whitbread, the brewing and leisure group, intends to sell many of its underperforming pubs and off-licences as part of an effort to improve its return on capital.

The group has drawn up plans to dispose of about 400 of its 3,700 pubs. Also, 80 of its 1,500 off-licences (ligning stores) are expected to go. Whitbread owns a number of off-licence chains, including Threshers, Bottoms Up and Wine Rack. The company has been talking to a several potential buyers but no sale has yet been agreed.

Mr David Thomas, who takes over from Mr Peter Jarvis as chief executive this summer, is expected to emphasise the need for Whitbread to focus on its core assets, when he presents the group's annual results tomorrow. Profits are forecast to rise 13 per cent from £283m (£453m) to £320m.

Roger Taylor

TGE considering listing

TGE Group, the instrumentation company spun out of Meggit, the specialist engineering group, said yesterday it was considering joining the stock market, as it announced its first annual results.

The company was formed in December 1995 in a management buy-out backed by NatWest Markets and Schroder Ventures. Combined operating profits of TGE's subsidiaries were £4.2m (\$6.8m) in 1996, 75 per cent up on last time. Pre-tax profits were £2.4m on turnover of £47.2m. Mr Lars McBride, a director of TGE, said the company was valued at about £18m at the time of the buy-out, but he expected a significant advance this year and hoped to achieve a stock market valuation closer to £50m.

He said the planned flotation could happen in the next 12 months, but said the company would be happy to delay its plans if conditions were not favourable.

The company also announced that its subsidiary Jon Track Instruments had won a contract from the US Federal Aviation Authority for its explosives detection equipment, worth up to £15m (£9.2m) in the first stage.

Audley buys Hotel Meurice

Audley Group, which manages the hotel assets of the Brunel Investment Agency, has bought the Hotel Meurice in Paris from the Aga Khan, the wealthy leader of the world's Ismaili Muslims, for an undisclosed sum.

The group is building a small collection of trophy hotels, including the Dorchester in London and the Beverly Hills Hotel in California. Last year, its turnover was £77m (£125m).

Unipart wins Bull contract

Unipart, the UK motor parts and accessories group, is to operate the UK replacement parts business of Bull, the French computer concern.

Unipart's Demand Chain Management division will manage a range of logistics services, including distribution of parts in the UK and Ireland. Bull's parts operation will be moved from its existing Stevenage facilities to Unipart's distribution headquarters in Coventry.

Talks sought on ICI leaks

Environment Agency officials are seeking urgent talks with senior management of ICI over chemical leaks, the agency said yesterday. The move follows separate chemical leaks within hours of each other at two ICI plants in the north of England.

Longbridge floats on Aim

Longbridge International is set to become the latest head-bunting concern to come to market. The company, which specialises in placing legal professionals with salaries of more than £100,000 (£162,000), is likely to be valued at £3.5m when it floats on the Alternative Investment Market today.

To U.S. companies requiring strategic advice in Italy

Morgan means more in-depth local knowledge

More understanding of the issues, more ability to get things done

MTV Europe
has entered into a cooperation agreement with

Rete A
providing MTV Europe with dedicated Italian terrestrial distribution

The undersigned acted as sole financial advisor to MTV Europe on this transaction

JPMorgan
April 1997

McDonald's Corporation
has acquired

Burghy
from Foodservice System Italia SpA, a subsidiary of

CA-FIN SpA
The undersigned acted as financial advisor to McDonald's Corporation on this transaction

JPMorgan
July 1996

CHRYSLER CORPORATION
Chrysler Corporation

has repurchased the distribution rights for Chrysler vehicles in Italy as well as selected assets and liabilities from

Koelliker SpA
The undersigned acted as financial advisor to Chrysler Corporation on this transaction

JPMorgan
March 1996

SONOCO PRODUCTS COMPANY
Sonoco International

has acquired a 25% interest in

Demolli Industria Cartaria
The undersigned acted as financial advisor to Sonoco Products Company on this transaction

JPMorgan
December 1995

Companies worldwide turn to J.P. Morgan for strategic advice because they know we deliver more. More senior-level attention. More adept execution. More innovative solutions. More than 150 years of doing business on-site around the world. And more of

a commitment to help clients succeed. As this selected group of transactions illustrates, J.P. Morgan remains the advisor of choice to U.S. companies requiring strategic advice in Italy.

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strategic advice • mergers & acquisitions • debt & equity capital raising • swaps & derivatives • loan syndication • sales & trading • asset management

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مركز التمويل

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

May 5	Closing mid-point	Change on day	Settlement	Day's Mid	One month	Three months	One year	JP Morgan
Europe	19.7800	+0.0049	485	714	10.7791	10.6834	10.7195	2.5
Austria	(Sfr)	19.7800	+0.0049	485	714	10.7791	10.6834	10.7195
Belgium	(Bfr)	57.0222	+0.0004	087	427	58.0000	57.9880	57.9880
Denmark	(DKr)	10.8882	+0.0045	004	016	10.7016	10.6549	10.6742
France	(Ffr)	6.4721	+0.0048	555	780	6.4787	6.4200	6.4200
Germany	(DM)	4.4748	+0.0041	705	089	4.4711	4.4288	4.4288
Greece	(Dr)	2.0075	+0.0003	081	089	2.0075	2.0075	2.0075
Italy	(Lira)	446.087	+1.82	648	285	447.876	444.438	444.438
Japan	(Yen)	1.0888	+0.0003	854	912	1.0892	1.0887	1.088
Netherlands	(Gld)	27.5222	+0.0004	087	427	27.5222	27.5222	27.5222
Portugal	(Esc)	200.722	+0.0018	657	281	200.722	200.722	200.722
Spain	(Ptas)	166.666	+0.0011	556	363	166.666	166.666	166.666
Sweden	(Kron)	11.1111	+0.0011	080	282	11.1111	11.1111	11.1111
Switzerland	(Sfr)	2.0075	+0.0003	081	089	2.0075	2.0075	2.0075
UK	(Sterling)	1.0000	0.0000	0.00	0.00	1.0000	1.0000	1.0000

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 5	Closing mid-point	Change on day	Settlement	Day's Mid	One month	Three months	One year	JP Morgan
Europe	12.1000	+0.0002	867	883	12.1000	12.1000	12.1000	2.1
Austria	(Sfr)	12.1000	+0.0002	867	883	12.1000	12.1000	12.1000
Belgium	(Bfr)	35.7330	+0.0002	820	840	35.7330	35.7330	35.7330
Denmark	(DKr)	6.5585	+0.0013	970	000	6.5585	6.5585	6.5585
France	(Ffr)	5.2255	+0.0016	240	289	5.2255	5.2255	5.2255
Germany	(DM)	5.3447	+0.0011	442	492	5.3447	5.3447	5.3447
Greece	(Dr)	1.7222	+0.0003	816	823	1.7222	1.7222	1.7222
Italy	(Lira)	275.180	+0.0002	120	130	275.180	275.180	275.180
Japan	(Yen)	1.0888	+0.0003	854	912	1.0888	1.0888	1.0888
Netherlands	(Gld)	1.1212	+0.0002	867	883	1.1212	1.1212	1.1212
Portugal	(Esc)	200.722	+0.0018	657	281	200.722	200.722	200.722
Spain	(Ptas)	166.666	+0.0011	556	363	166.666	166.666	166.666
Sweden	(Kron)	11.1111	+0.0011	080	282	11.1111	11.1111	11.1111
Switzerland	(Sfr)	2.0075	+0.0003	081	089	2.0075	2.0075	2.0075
UK	(Sterling)	1.0000	0.0000	0.00	0.00	1.0000	1.0000	1.0000

WORLD INTEREST RATES

May 2	Over night	One month	Three months	Six months	One year	Long term	Rate
Belgium	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
France	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Germany	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Italy	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Japan	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Netherlands	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Portugal	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Spain	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Sweden	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Switzerland	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
UK	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50

CROSS RATES AND DERIVATIVES

May 5	Settlement	Change on day	Settlement	Day's Mid	One month	Three months	One year	JP Morgan
Europe	19.7800	+0.0049	485	714	10.7791	10.6834	10.7195	2.5
Austria	(Sfr)	19.7800	+0.0049	485	714	10.7791	10.6834	10.7195
Belgium	(Bfr)	57.0222	+0.0004	087	427	58.0000	57.9880	57.9880
Denmark	(DKr)	10.8882	+0.0045	004	016	10.7016	10.6549	10.6742
France	(Ffr)	6.4721	+0.0048	555	780	6.4787	6.4200	6.4200
Germany	(DM)	4.4748	+0.0041	705	089	4.4711	4.4288	4.4288
Greece	(Dr)	2.0075	+0.0003	081	089	2.0075	2.0075	2.0075
Italy	(Lira)	446.087	+1.82	648	285	447.876	444.438	444.438
Japan	(Yen)	1.0888	+0.0003	854	912	1.0892	1.0887	1.088
Netherlands	(Gld)	27.5222	+0.0004	087	427	27.5222	27.5222	27.5222
Portugal	(Esc)	200.722	+0.0018	657	281	200.722	200.722	200.722
Spain	(Ptas)	166.666	+0.0011	556	363	166.666	166.666	166.666
Sweden	(Kron)	11.1111	+0.0011	080	282	11.1111	11.1111	11.1111
Switzerland	(Sfr)	2.0075	+0.0003	081	089	2.0075	2.0075	2.0075
UK	(Sterling)	1.0000	0.0000	0.00	0.00	1.0000	1.0000	1.0000

UK INTEREST RATES

May 2	Over night	One month	Three months	Six months	One year	Long term	Rate
Belgium	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
France	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Germany	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Italy	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Japan	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Netherlands	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Portugal	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Spain	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Sweden	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Switzerland	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
UK	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50

EXCHANGE CROSS RATES

May 5	Settlement	Change on day	Settlement	Day's Mid	One month	Three months	One year	JP Morgan
Europe	19.7800	+0.0049	485	714	10.7791	10.6834	10.7195	2.5
Austria	(Sfr)	19.7800	+0.0049	485	714	10.7791	10.6834	10.7195
Belgium	(Bfr)	57.0222	+0.0004	087	427	58.0000	57.9880	57.9880
Denmark	(DKr)	10.8882	+0.0045	004	016	10.7016	10.6549	10.6742
France	(Ffr)	6.4721	+0.0048	555	780	6.4787	6.4200	6.4200
Germany	(DM)	4.4748	+0.0041	705	089	4.4711	4.4288	4.4288
Greece	(Dr)	2.0075	+0.0003	081	089	2.0075	2.0075	2.0075
Italy	(Lira)	446.087	+1.82	648	285	447.876	444.438	444.438
Japan	(Yen)	1.0888	+0.0003	854	912	1.0892	1.0887	1.088
Netherlands	(Gld)	27.5222	+0.0004	087	427	27.5222	27.5222	27.5222
Portugal	(Esc)	200.722	+0.0018	657	281	200.722	200.722	200.722
Spain	(Ptas)	166.666	+0.0011	556	363	166.666	166.666	166.666
Sweden	(Kron)	11.1111	+0.0011	080	282	11.1111	11.1111	11.1111
Switzerland	(Sfr)	2.0075	+0.0003	081	089	2.0075	2.0075	2.0075
UK	(Sterling)	1.0000	0.0000	0.00	0.00	1.0000	1.0000	1.0000

BANK OF ENGLAND TREASURY BILL TENDER

May 2	Over night	One month	Three months	Six months	One year	Long term	Rate
Belgium	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
France	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Germany	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Italy	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Japan	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Netherlands	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Portugal	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Spain	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Sweden	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
Switzerland	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50
UK	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	2.50

US INTEREST RATES

May 5	Settlement	Change on day	Settlement	Day's Mid	One month	Three months	One year	JP Morgan
Europe	19.7800	+0.0049	485	714	10.7791	10.6834	10.7195	2.5
Austria	(Sfr)	19.7800	+0.0049	485	714	10.7791	10.6834	10.7195
Belgium	(Bfr)	57.0222	+0.0004	087	427	58.0000	57.9880	57.9880
Denmark	(DKr)	10.8882	+0.0045	004	016	10.7016	10.6549	10.6742
France	(Ffr)	6.4721	+0.0048	555	780	6.4787	6.4200	6.4200
Germany	(DM)	4.4748	+0.0041	705	089	4.4711	4.4288	4.4288
Greece	(Dr)	2.0075	+0.0003	081	089	2.0075	2.0075	2.0075
Italy	(Lira)	446.087	+1.82	648	285	447.876	444.438	444.438
Japan	(Yen)	1.0888	+0.0003	854	912	1.0892	1.0887	1.088
Netherlands	(Gld)	27.5222	+0.0004	087	427	27.5222	27.5222	27.5222
Portugal	(Esc)	200.722	+0.0018	657	281	200.722	200.722	200.722
Spain	(Ptas)	166.666	+0.0011	556	363	166.666	166.666	166.666
Sweden	(Kron)	11.1111	+0.0011	080	282	11.1111	11.1111	11.1111
Switzerland	(Sfr)	2.0075	+0.0003	081	089	2.0075	2.0075	2.0075
UK	(Sterling)	1.0000	0.0000	0.00	0.00	1.0000	1.0000	1.0000

BENCHMARK GOVERNMENT BONDS

100,000 Shares of 100%				
High	Low	Est. vol.	Open	Int.
0-04	106-25	441,497	498,883	
0-23	106-12	12,890	47,537	
0-08	106-20	4,795	8,214	

JP JAPAN OTC FUND INC.

(Incorporated in the Cayman Islands)

International Depositary Receipts (IDRs)

issued by
Morgan Guaranty Trust Company of New York
evidencing 100 participating shares of USD 1 each

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that an Annual General Meeting ('the Meeting') of The JP Japan OTC Fund Inc. ('the Company') will take place on Tuesday, 3rd June 1997 at 4:00 pm in Room 1, 47th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong.

The Meeting will be held for the purpose of considering, and if thought fit, passing resolutions approving the accounts for the year ended 31st December 1996.

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LUXEMBOURG (REGULATED)	LUX	USD	EUR	GBP	JPY	CHF	AUD	NZD	HKD									
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Offshore Insurances and Other Funds

Offshore Insurances and Other Funds

Offshore Insurances and Other Funds

Offshore Insurances and Other Funds

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

Table with 4 columns: Index, High, Low, Change. Includes data for Austria, Belgium, Germany, France, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, Switzerland, and the UK.

ASIA

Table with 4 columns: Index, High, Low, Change. Includes data for Hong Kong, Japan, Korea, Singapore, Taiwan, and Thailand.

AMERICA

Table with 4 columns: Index, High, Low, Change. Includes data for Canada, Mexico, and the US.

AFRICA

Table with 4 columns: Index, High, Low, Change. Includes data for South Africa.

OCEANIA

Table with 4 columns: Index, High, Low, Change. Includes data for Australia and New Zealand.

ISLAMIC

Table with 4 columns: Index, High, Low, Change. Includes data for the Islamic Index.

Automatic Call Distributor (ACD) technology, which handles high volume in-coming calls, was pioneered by Rockwell.



http://www.rockwell.com

INDICES

Table with 4 columns: Index, High, Low, Change. Lists various regional and global indices.

US INDICES

Table with 4 columns: Index, High, Low, Change. Lists major US stock indices.

NEW YORK STOCKS

Table with 4 columns: Stock, High, Low, Change. Lists individual stocks traded in New York.

NEW YORK BONDS

Table with 4 columns: Bond, High, Low, Change. Lists various government and corporate bonds.

INDEX FUTURES

Table with 4 columns: Index, High, Low, Change. Lists futures contracts for major indices.

COMMODITIES

Table with 4 columns: Commodity, High, Low, Change. Lists prices for various commodities.

NEW YORK STOCKS

Table with 4 columns: Stock, High, Low, Change. Continuation of New York stock listings.

NEW YORK BONDS

Table with 4 columns: Bond, High, Low, Change. Continuation of New York bond listings.

NEW YORK STOCKS

Table with 4 columns: Stock, High, Low, Change. Continuation of New York stock listings.

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Continued on next page

NASDAQ NATIONAL MARKET

4. *See also* 149:5

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$$8\frac{5}{8} \quad 9 \quad 8\frac{3}{4} \quad +\frac{1}{8}$$
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RENAISSANCE
HOTELS AND RESORTS
The Mark Of A Fine Hotel

EASDAQ											
EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Brokers and Banks from across Europe.											
Company	Mid price	Change on day	Volume on day	High	Low	Company	Mid price	Change on day	High	Low	
AdiCard	US\$7.125	-0.125	0	8.25	7	Esprit Telecom AS	US\$8	0	500	12.5	8
Lowest Systems	US\$10.575	0	1500	11	9.5	Intercept AS	US\$11.825	-0.125	14105	12.75	10.575
Capgemini	FFR18	0	16	18	16	Morair Industrial	US\$8.825	-0.25	0	11.75	8.25
D Salomons ADS	US\$21.75	-0.25	8	25.5	16.875	Patriot	US\$5.5	0	8	12.5	8.25

Techs lead Zurich powers to fourth consecutive high

Dow up to all-time peak

AMERICAS

Wall Street spent yesterday morning flurting with its all-time highs in volatile trading, while the technology sector continued its sharp recovery of last week, writes *Jane Martinson* in New York.

At 1pm the Dow Jones Industrial Average was up 13.35 at 7,084.46, almost level with its previous closing record of 7,085.16 set on March 11, with technology stocks driving the strong performance. NYSE volume was slightly above average at 295.85m shares.

The broader S & P 500 gained 1.39 at 814.36. The technology-driven Nasdaq composite index continued on its upward path of the past few weeks with a 20.70 increase to 1,325.20. Chief among the outperformers was Cisco Systems, the networking company, which staged a strong rally in the past week after suffering more than most during the sell-off of the sector earlier this year. Cisco rose 1% at \$58. The other strong performers in the index included Oracle, the software company, which rose 1% at \$44, and Intel, the largest semiconductor manufacturer, up 2% at \$160.7.

The paper sector, one of the weakest performers over the past year, rallied on the back of the agreed takeover of Fort Howard by James River, which spurred speculation that the industry

would see a wave of further mergers. Fort Howard gained 4% to \$40.60 while James River rose 5% at \$31.4.

International Paper gained 1% at \$44 and Georgia-Pacific, another large paper manufacturer, gained 3% at \$81. Tobacco stocks continued their bumpy ride of the past few months as worries over jury deliberations in a key case for the industry in Florida, RJR Nabisco shed 4% at \$28 while Philip Morris lost 1% at \$38.4.

TORONTO saw sharp losses in small gold mining and exploration companies, especially those with Indonesian projects, as the market came to terms with the day's news that Bre-X Minerals' claim of a huge gold find at Bussang was based on falsified data.

Trading in Bre-X and Minors Resources, which had a royalty interest in the Bussang property, was halted indefinitely. But among other miners, Scorpion Minerals plunged \$1 to \$1.90, and Indomin Resources dropped \$1.07 to \$1.91.

At the other end of the spectrum, Canada's major gold miners moved higher and the price of gold ticked up on the realisation that Bre-X would not be adding to world gold supply after all.

The broad market edged ahead at midsession with the TSE-300 composite index 11.19 higher at 8,118.10.

Caracas on upward track

CARACAS remained on an upward path, adding 1.3 per cent to gains made late last week. By midsession, the IBC index was 85.30 higher at 4,540.75.

Brokers said that heavy foreign buying of leading blue chips, such as the benchmark Electricidad de Caracas, CANTV, the telecommunications monopoly, and Mavesa, the food manu-

facturer, had reawakened the market.

SAO PAULO edged back at midsession on profit-taking and dips in some retail stocks after Friday's rise in the consumer credit tax. The Bovespa index was 23 weaker at 10,062 as the market continued to await the privatisation of CVRD, planned for last Tuesday but delayed by court injunctions.

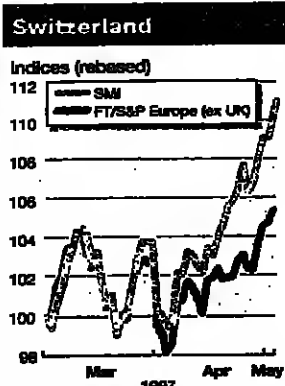
EUROPE

Last Friday's budget deal in Washington boosted treasuries, the dollar and the Dow; bourses picked up on this, six of them reaching all-time highs.

ZURICH powered ahead to a fourth consecutive peak, helped by strong performances in a number of heavily weighted index stocks, including Novartis, Nestlé, Roche and Swiss Re. The SMI index rose 76.1 or 1.5 per cent to 5,029.6, encouraged by the strong performance of Wall Street, a favourable interest rate environment and derivatives-linked buying.

Novartis registered shares rose Sfr32 at Sfr2,010, breaking through the Sfr2,000 level for the first time. Roche certificates added Sfr180 at Sfr12,890. Nestlé picked up Sfr28 to Sfr1,844 as investors bought the stock ahead of today's annual press conference, where first-quarter results were to be released.

Swiss Re, up Sfr54 at Sfr1,900, profited from good 1996 figures posted on Friday after the house closed. Win-terthur, with results due on May 14, rose Sfr14 at Sfr1,097 as it denied



rumours that it planned to sell its stake in Banque Bruxelles Lambert to ING.

UBS closed just Sfr1 higher at Sfr1,408 amid speculation about a possible purchase of Scudder Stevens & Clark. The bank declined to comment although a spokesman said it was interested in an acquisition to shore up its asset management activities in the US.

FRANKFURT acknowledged the Dow with an index gain of 2.1 per cent; bond market strength with a flurry in financials; and the dollar with a further gain in

carmakers, which had already given German equities a strong lead this year.

The Dax index peaked again, closing 74.61 or 2.1 per cent higher at an all-time high of 3,565.89. Turnover may have reflected the UK holiday, but it was not obviously weak at DM12.8bn, up from DM12.1bn last Friday.

Financials put up a number of outperformers: Dresdner rose DM2.43 or 4.3 per cent to DM53.45 and Bayernverein and Commerzbank by 3.6 per cent each. This followed a flourish last Tuesday on friendly US data, and speculation that the sector, having underperformed in April, could be a target for rotation again this month.

In carmakers, Volkswagen was still flavour of the year, up DM41.90 or 3.6 per cent to DM1,200 after gains in first-quarter sales and profits.

Hoechst, in chemicals, underperformed again, a rise of 35 pig at DM67.15 reflecting some disappointment with its own first-quarter figures. SAP, the software company that saw its price hit a low of DM311 on news of an insider trading probe, recovered to close DM2.05 higher at DM330.

Thara was complaints about low volume in both

AMSTERDAM, which moved into new high ground, and in PARIS, which did not.

The Dutch market made winners out of last week's losers; Royal Dutch and Akzo-Nobel recovered from disappointment after their first-quarter results, rising F15.50 to F135.00 and F14.30 to F127.30 respectively while Heineken, the brewer, gained F18.50 at F134.80.

The French, with more ground to make up, took heart from a poll putting the centre-right coalition in a comfortable, but reduced lead over the socialists. The CAC 40 index rose 17.53 to 2,672.84. Paribas closing FFR11.20 higher at FFR371.80 after Massonand, the broker, raised its rating on the stock to "buy" from neutral.

Accor, the hotels group, put on FFR24 or 2.8 per cent at FFR70 although it denied an agency report that said it wanted to sell its US Motel 6 chain, or to dispose of the property assets and retain the management contracts.

MILAN edged lower on losses in HTL, the industrial group, after the failure of its merger with the construction company said that it intended to redeem a tenth of its equity at SKR400 a share, and that earnings

Comit index lost 0.13 to 71.87.

HTL fell L84.7 to L863.4 but Marzotto lost just L9 to L12,417 on news that the merger plan would not go ahead. Mediobanca, the merchant bank that brokered the plan, lost L460 to L10,166.

MADRID had the gain of the day in Europe, the general index peaking 12.50 or 2.4 per cent higher at 528.85. The key banking and utilities sectors each rose 3.1 per cent.

In the former, Banesto, once the sick man of the industry, gained Pta115 or 8.35 per cent at Pta1,415; in the latter, Endesa, next up on the privatisation cartwheel, closed Pta490 or 4.8 per cent higher at Pta10,750.

STOCKHOLM had a repeat showing of the news that Swedish car registrations rose 48 per cent in April, and Volvo made more of the news than it did last Friday, the B shares rising another SKR10 to SKR212.

would rise from SKR31.60 a share to SKR33.90 as a result.

ISTANBUL closed 2.7 per cent lower in response to continuing political tensions, disappointing first-quarter corporate results and higher than expected April inflation. The IMKB-100 index lost 39 at 1,382.

Analysts noted that on Saturday Mr. Necmettin Erbakan, the Islamist prime minister, ruled out early elections as a solution to his continuing dispute with the secularist army over Islamist activism.

ATHENS extended its winning streak as the general index pierced the 1,500 point level to close 2.3 per cent better at a near seven-year high. A strong performance by banks and industrial heavyweight stocks led the market up and the index finished 33.45 higher at 1,518.42. Analysts said that banks, up 2.2 per cent on the day, were in demand in view of the windfall gains being made on bond portfolios from sharp interest rate cuts. The industrial sector rose 1.6 per cent, helped by a strong performance in food manufacturing stocks.

Written and edited by William Cochrane and Michael Morgan.

Hong Kong up 2.4%, China shares roar ahead

ASIA PACIFIC

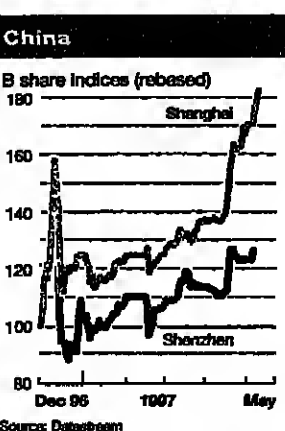
Friday's strong rally on Wall Street prompted heavy buying of HONG KONG's interest rate-sensitive property and banking stocks. The Hang Seng index jumped 317.64 or 2.4 per cent to 13,399.34 after touching a session high of 13,439.78. Turnover of HK\$14.9bn was the fifth highest ever recorded.

Analysts noted some switching out of red chips after their recent strong run. HSBC led the market, crossing the HK\$200 level for the first time and hitting a record intra-day high at HK\$204. It closed at HK\$202, up HK\$4.50.

Rate-sensitive property stocks, however, provided the strongest performing sector, further supported by hopes that a consolidation in the property market was coming to an end.

Cheung Kong rose HK\$2.75 to HK\$73.50, Sun Hung Kai Properties added HK\$3 to HK\$90.50 and Henderson Land rose HK\$3 to HK\$70.50. SHANGHAI's hard currency B shares rocketed 6.1 per cent higher as overseas and domestic investors snapped up blue chips and the three Pudong real estate shares due to strong confidence in the market outlook and on the view that the B index had underperformed its domestic A counterpart.

The B index surged 5.58% to 96.817 in turnover of \$31.6m. The A share index



was 3.9 per cent higher, in spite of news that the national share issue quota has been raised from the existing 100bn to 150bn. Analysts said that investors apparently took the view that there was enough hot money in the market to absorb such a sum.

SHENZHEN was carried along on the same optimistic wave. The B index rose 4.87 or 2.8 per cent to 181.14, while the A share index climbed 3.8 per cent.

MANILA staged a remarkable technical recovery, the index rebounding by 130.77 or 5 per cent to close at its intra-day high of 2,736.42. Volume was heavy at 10.9bn shares, worth 4.2bn pesos. There was better news. Inflation in April fell from 4.8 per cent to 4.6 per cent year on year although there had been predictions of a

further rise. In the embattled real estate sector, Megaworld Properties recovered 1.10 pesos or 19.3 per cent to 6.80 and Ayala B by 8.75 pesos or 20.5 per cent to 22.

However, analysts, after a 9.3 per cent fall last week and a 24.4 per cent one since February 3, were unwilling to bet that the worst was over.

On the day, the successful listing of Premiere Entertainment Productions, the first Philippine film producer to go public, helped boost confidence in the market. Its small float of 180m shares, heavily supported by the local Chinese community, opened at 1.10 pesos and ended near its peak at 1.26 against an offer price of 1 peso.

TAIPEI, which gained 1.6 per cent on bargain-hunting

on Saturday, saw the weighted index subside by 45.24 to 8,289.43, off an intra-day low of 8,213.12. Turnover was T\$90.9bn, down from recent levels of T\$100bn plus.

Sentiment was dampened by a student protest to demand the resignation of Lien Chan, the Taiwanese premier, following a mass demonstration on Sunday.

Tokyo, Seoul and Bangkok were closed for public holidays yesterday.

against the government's failure to check a spate of violent crimes; the protests were triggered by the kidnapping and murder of a famous actress' teenage daughter.

SYDNEY tried to respond to Wall Street but the All Ordinaries index eventually

closed only 1.1 higher at 2,492.7, off a high of 2,509.9, in turnover of A\$973.6m.

Analysts said that the fall-out from the Bre-X scandal would have a short-term impact on small mining and exploration companies. Golden Valley, which has a disputed claim on part of the Bussang project, fell 14 cents to 38 cents. The gold index closed down 8.5 at 1,549.0 with Normandy down 8 cents at A\$1.57, and Sons of Gwalia 8 cents lower at A\$5.50.

DHAKA was higher for a sixth straight session, jumping 6.3 per cent as the market regained confidence after reports that the bourse council and the Securities and Exchange commission could soon be overhauled.

The benchmark index rose 65.16 to 1,102.37, adding to

Saturday's 2.1 per cent rise and Sunday's 6 per cent advance. That followed news that four executives of the Beximco group of companies, accused of stock price manipulation, had won a court order staying proceedings against them.

Last month the market authorities filed cases against 20 brokers and firms for the alleged price manipulation that brought turmoil to the market last year. The Beximco group of companies account for 27 per cent of market capitalisation.

KARACHI saw selling pressure in Hnb Power, Pk\$0.80 down at Pk\$26.90, a newspaper report that the Pakistan government plans to renegotiate power purchase tariffs with private power companies. The KSE-100 index fell 4.24 to 1,538.11.

MARKETS IN PERSPECTIVE

	% change in local currency †			% change sterling ‡	% change US\$ ‡
	1 Week	4 Weeks	1 Year	Start of 1997	Start of 1997
Austria	-0.04	+3.27	+9.25	+7.20	+1.01
Belgium	+2.91	+8.23	+31.84	+20.17	+13.18
Denmark	+0.32	+4.92	+36.12	+14.39	+8.42
Finland	+3.87	+10.08	+50.33	+19.71	+12.05
France	+4.25	+5.16	+24.48	+14.50	+8.02
Germany	+2.10	+5.59	+36.35	+18.85	+12.05
Ireland	+5.02	+8.27	+38.70	+15.31	+7.44
Italy	+2.03	+8.22	+15.72	+10.02	+11.71
Netherlands	+2.14	+8.59	+38.58	+17.98	+10.99
Norway	+0.20	+4.87	+27.17	+11.04	+5.68
Spain	+3.15	+11.54	+49.22	+17.11	+10.48
Sweden	+3.50	+3.60	+41.22	+14.65	+5.62
Switzerland	+3.62	+10.20	+33.82	+24.92	+20.48
UK	+1.73	+4.37	+15.18	+6.83	+6.53
EUROPE	+2.47	+6.04	+25.96	+13.98	+9.74
Australia	+0.57	+5.68	+9.39	+4.36	+9.00
Hong Kong	+2.81	+5.30	+8.19	-7.45	-2.28
Indonesia	+2.69	+1.23	n.a.	-1.84	+3.69
Japan	+4.02	+7.42	+10.88	+5.25	+2.32
Malaysia	+0.56	-4.18	-7.16	-11.29	-5.56
New Zealand	+1.29	+2.37	+3.23	-4.19	-0.91
Philippines	-9.51	-15.28	n.a.	-22.78	-18.55
Singapore	-0.21	-5.36	-13.31	-8.95	-6.93
Thailand	-4.96	-10.48	-57.11	-18.82	-18.51
Canada	+5.42	+6.67	+23.67	+4.46	+9.54
USA	+6.36	+7.02	+25.29	+8.06	+15.33
Brazil	+2.24	+2.44	+68.93	+34.21	+36.59
Mexico	-0.63	-0.55	+15.25	+11.27	+17.07
South Africa	+1.47	+1.93	+0.35	+8.30	+20.32
WORLD INDEX	+4.48	+6.40	+15.75	+7.90	+9.71

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South Africa golds higher

Gold share finished stronger in Johannesburg after an unexpectedly sharp rise in the bullion price. Industrials were also higher, boosted by positive sentiment about the outlook for the domestic economy and supported by the early strength on Wall Street.

The overall index rose 41.4 to 7,190.4; golds gained 24.1 to 1,305.7 and industrials added 24.9 to 8,565.4.

Among mining stocks, boosted by a surprise \$3 an ounce rise to \$343 in the bullion price, Kioof gained 90 cents to R30.90. Dries added 110 cents at R38.50 and Freegold gained 140 cents to R21.50.

The financial sector was helped by advances in Nedcor, 3.1 per cent stronger at R93, and Stanbic, which rose 2.9 per cent to finish at R211.

When Westinghouse and Infinity combined their radio broadcast capabilities Chase was already tuned in.

Chase's long-standing relationship with both Westinghouse and Infinity Broadcasting Corporation - and an in-depth understanding of both companies' strategic objectives - helped lead to Westinghouse's \$4.9 billion merger with Infinity. Chase was instrumental in initiating the transaction, which created the nation's largest radio group, and served as financial advisor to Westinghouse.

"Chase has had a close relationship with both companies for over a decade, advising and financing on a range of transactions. Their in-depth knowledge of our businesses enabled us to identify this opportunity."

Met Karmazin, Chairman and CEO, CBS Radio, Michael R. Jordan, Chairman and CEO, Westinghouse Electric Corporation, Fredric R. Reynolds, Executive Vice President and CFO, Westinghouse Electric Corporation.

CHASE. The right relationship is everything.

Chase Securities Inc. acted as financial advisor.
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REGIONAL AND NATIONAL MARKETS																
Figures in parentheses show the number of shares of issue of stock																
	US Dollar	Day's % change	Pound Sterling	Yen	DM	Local Currency	% change on day	Gross Div. Yield	US Dollar	Day's % change	Pound Sterling	Yen	DM	Local Currency	% change on day	Gross Div. Yield